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## ECONOMIC INEQUALITY: ETHICAL IMPLICATIONS

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Shaji George Kochuthara

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A JOURNAL FOR SOCIO-RELIGIOUS RESEARCH

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## **Economic Inequality: Ethical Implications**

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## **Editorial**

Isn't inequality natural? Human beings are different and unequal in intellectual capacity, physical strength, artistic capabilities, talents, social skills, etc. So, isn't it natural that more hardworking and more efficient people become richer? But, is the problem so simple? Is the economic inequality that exists in the world so natural and hence to be accepted as it is? Or, at least sometimes, should we hold that the economic inequality is human-made, and hence has to be challenged and changed? Is this inequality an evil? If it is, when does it become an evil?

There is no doubt that we need development. As Pope Paul VI has said, "Development is the new name for peace."<sup>1</sup> India is one of the fastest growing economies in the world. Despite recession and its after effects, the growth rate of India was above 7% in 2015. It is a member of G-20 and of BRICS. It is predicted that by 2030 India may become the second largest economy in the world and by 2050 the largest. IT, Management and allied sectors have made tremendous progress in India. However, 33% of the world's poor live in India. According to the Planning Commission of India, in 2010-2011 the number of those under poverty line was more than 40 crores [1 crore=10 million]. This shows the continuing and widening gap between the rich and the poor.

With globalization, neo-liberal economic system has been presented as the only successful economic model. As an ideal globalization may be promising, but neo-liberal economy, which often grants almost an unlimited freedom to the multi-national corporations and the private

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<sup>1</sup> Paul VI, *Populorum Progressio* (1967), 76-77. This particular phrase is in fact the subheading given to paragraph numbers 76-77.

sector, raises apprehensions. Traditional sectors like agriculture have suffered a lot. Economic inequality is on the rise on the global level.

Development, if it has to ensure peace, should be accessible to all. If only a few people are able to enjoy the fruits of development, leaving others in poverty, it will result in the dissatisfaction and unhappiness of those who are denied the benefits of development, and it will adversely affect peace within the nation and among nations. Already in 1967 Pope Paul VI warned how inequality can threaten peace: "Extreme disparity between nations in economic, social and educational levels provokes jealousy and discord, often putting peace in jeopardy."<sup>2</sup> This is all the more true today, as inequality is on the rise, not only among nations but also between the rich and the poor within the same nation.

According to the Christian vision wealth is God's gift. Christianity is not against private property; private property as integral to human freedom and dignity. While respecting and defending the right to private property, Christianity is clear that hoarding of wealth in the hands of a few, denying even the basic rights and needs of others is evil and sinful. As *Gaudium et Spes* has clearly affirmed, "For excessive economic and social differences between the members of the one human family or population groups cause scandal, and militate against social justice, equity, the dignity of the human person, as well as social and international peace."<sup>3</sup>

Pope John Paul II has repeatedly said that, "peace for all of us comes from the justice of each of us."<sup>4</sup> Development becomes real development only when it is sought in solidarity, which is an authentic moral virtue. Solidarity implies that there is a shared responsibility to assist countries and people excluded from or disadvantaged.

<sup>2</sup> Paul VI, *Populorum Progressio*, 76.

<sup>3</sup> Second Vatican Council, *Gaudium et Spes* (7 December 1965), 29.

<sup>4</sup>"From the Justice of Each Comes Peace for All," Message of His Holiness Pope John Paul II for the Celebration of the World Day of Peace, 1 January 1998, # 7, [http://www.vatican.va/holy\\_father/john\\_paul\\_ii/messages/peace/documents/hf\\_jp-ii\\_mes\\_08121997\\_xxi-world-day-for-peace\\_en.html](http://www.vatican.va/holy_father/john_paul_ii/messages/peace/documents/hf_jp-ii_mes_08121997_xxi-world-day-for-peace_en.html)

Articles in this issue approach economic inequality from various perspectives. Adaina K.C. reviews the social implications of economic inequality, both at the individual and macro levels. He also refers to various approaches which may be helpful to reduce inequality. Charles Irudayam explains the important features of East Asian economic development and holds that economy is to be guided by moral principles if it should lead to the creation of a just and sustainable society. Sahayarj John Stanley evaluates neoliberalism which is the heart of economic globalization. He argues that neoliberalism, which looks upon the human person primarily as homo economicus, and which is driven by profit maximization and competition, encourages inequality and hence has to be corrected. K.J. Joseph, Liyan Zhang and Kiran Kumar Kakarlapudi discuss how globalization has increased inequality. Taking the case of India and China, they show that though globalization has led to economic growth in India and China, in India it has led to greater inequality. Roman Mícka elucidates when economic inequality becomes an evil and a sin. Catholic Social Teaching (CST), besides criticising sharp inequality, has underlined the importance of universal destination of goods. Mícka also draws our attention to the teachings of Pope Francis.

Addressing the new Vatican ambassadors in May 2013, Pope Francis said: "While the income of a minority is increasing exponentially, that of the majority is crumbling. This imbalance results from ideologies which uphold the absolute autonomy of markets and financial speculation, and thus deny the right of control to States, which are charged with providing for the common good. A new, invisible and at times virtual, tyranny is established, one which unilaterally and irremediably imposes its own laws and rules."

Economic prosperity, if it does not ensure justice to all, will not lead to long-lasting peace, well-being, and development in the world. Those who are denied justice and even a minimum means of life will rise against the powerful who deny them justice and oppress them in different ways. Development in solidarity is necessary for peace and harmony in this world. Moreover, ensuring justice is not merely to satisfy some legal requirements, or to avoid wars and conflicts. It comes out of the conviction that all people on earth basically form one single human community, that everyone is related to everyone else and

everyone is responsible for the well-being of all. This concept of justice is fundamentally rooted in love and solidarity with all people on earth.

### **Editor**

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**Rev. Dr. Mathew Illathuparampil** has been the editor of this Number for the last ten years. As he is now the Rector of the St. Joseph's Pontifical Seminary, Alwaye , he regrets to inform that he is unable to continue the work as the editor. We thank him most sincerely for his generous and dedicated work for our Journal Jeevadhara. **Rev. Dr. Shaji George Kochuthara** is the incoming new editor; he is one of the most renowned moral theologians in India, the professor of moral theology at Dharmaram Vidya Kshetram Bangalore and the chief editor of the International Theological Journal, *Asian Horizons*. Most Cordial and Warm Welcome to Dr. Shaji George Kochuthara!

**General Editor, Jeevadhara**

# **Social Implications of Economic Inequality**

**Adaina K. C.**

The author reviews a range of perspectives on economic inequality and its social implications, both at the level of the individual and at the macro level. While doing so, it also aims to provide an overview of the wealth of literature on the inequality debate alongside varied conceptualizations of the equity agenda. An interrogation of literature suggests that inequality has important implications on macro-social indicator such as macro-economic stability and crime level in the society while at the individual level it has an impact on individual health, happiness, expenditure and saving patterns, decisions involving risk and participation in civic and social life.

Adaina K.C. is currently assistant professor of economics at the department of economics, Christ University, Bengaluru. Prior to his teaching position, he worked as a research analyst on environmental issues in the Economic Regulatory Division of the Ministry of Civil Aviation, New Delhi. His research interests include environment and development, environmental valuation, new conceptualisations on poverty, ethics and environment and so on. Adaina obtained his doctorate degree in 2013 from Indian Institute of Technology, Madras (IIT M) in the domain of environmental valuation, working largely on constructing an alternative and multidimensional framework on valuing the environment. Email: adaina.kc@christuniversity.in

## **1. Introduction**

Widening income inequality is one of the most pressing challenges of our time and a widespread concern for India. India ranks 130 out of 188 countries in 2014 in the Human Development Index and the Gini coefficient in the same year is 0.33.<sup>1</sup> The International Monetary Fund

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<sup>1</sup> United Nations Development Programme. *Human Development Report: Work for Human Development*. 2015. [http://hdr.undp.org/sites/default/files/2015\\_human\\_development\\_report.pdf](http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf)

(IMF) in its regional economic outlook for Asia and Pacific, has very recently warned that India faces the social risk of growing inequality. It pointed out that there is a problem with the (re)distribution of incomes in India since an otherwise high economic growth rate does not reduce inequality. This means that economic growth is not necessarily distribution neutral and can have significant social implications.

Results of several studies in the past indicate a bi-directional relationship between economic growth and income inequality. Simon Kuznet made a seminal argument on the inverted-U relationship between economic growth and income inequality.<sup>2</sup> This means that the initial stage of economic growth of a country is associated with low level of inequality and rises when the country becomes richer till it touches a tipping point where, through the rise of a welfare state, the curve takes a downward turn again, i.e. inequality reduces with further rises in income. Subsequent studies also point to the negative impact of inequality on growth in that unequal incomes result in a sense of deprivation, loss of self esteem and poor health outcomes, all of which adversely affect productivity and growth.

There are a number of studies indicating that inequality has significant implications not just for growth and macroeconomic stability but is also closely associated with myriad health and social problems like life expectancy, crime rates, infant mortality rates, school drop-outs, social mobility and so on. In this sense, income inequality is divisive and socially corrosive. There are also individual level effects of income inequality measured in terms of relative deprivation such as mental illness, anxiety and stress levels and reduction in the sense of well-being.

This review paper is structured in two parts. The first part will provide the necessary conceptualization of the concept of inequality and that of equity which further enhances our understanding of unequal situations. The second part will provide a conceptual understanding of the concept of relative deprivation, a measure of income inequality at the individual level, and its impact on individual well-being.

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<sup>2</sup> Simon Kuznets. "Economic Growth and Income Inequality." *American Economic Review* 45, 1 (1955), 19-20.

## 2. What is Bad about Economic Inequality?

Several responses with many social implications could be attempted to this pertinent question. First, extreme income inequality leads to economic inefficiency. This is because, to a large extent, at any given average income, the higher the inequality, the smaller the fraction of the population that qualifies for a loan or any other source of credit. When low income individuals (whether they are absolutely poor or not) cannot borrow money, they generally cannot educate their children or meet certain inevitable health expenses of the family. Moreover, with high inequality, the overall rate of saving in the economy tends to be lower, because the highest rate of marginal savings is usually found among the middle classes.

Secondly, income inequality could depress production and employment because the marginal propensity to consume of the rich is lower than the poor. Thus, while the rich would increasingly save a large proportion of their income which, if in the hands of the poor, would have spent on consumption needs. Therefore, there is a reduction in the aggregate demand resulting in lower investments and subsequently lesser employment.

Thirdly, even religious and philosophical thought within the Smithian school emphasizes the idea of social justice in which all members of a society should be able to appear without shame in the public. Thus, a level of income that enables them to do so becomes imperative. Similar views have also been espoused by Sen.<sup>3</sup>

Fourthly, from a redistributive perspective, the welfare of the poorest should be given more weight since for the wealthy the utility that comes from additional increases in wealth diminishes. For instance, the value of an additional hundred rupees is worth more in the hands of the poor than the rich.

## 3. Conceptualizing Economic Inequality

Economic inequality largely concerns itself with the inequality of income. However, there are many conceptualizations that have

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<sup>3</sup>Amartya Sen. *Development as Freedom*. Oxford: Oxford University Press, 2001.

emerged in understanding the concept of inequality. One is the idea that inequality could be either vertical, as measured at individual and household level or horizontal, as measured between socially and culturally defined groups. Economic inequality in most concrete terms is measured with tools like the Gini coefficient which aims to emphasize on vertical inequality. Gini coefficient ranges from zero to one, with zero representing perfect equality and one representing perfect inequality. The higher the Gini coefficient, the greater is the gap between the rich and the poor in a country. Discourses on inequality have however, gone beyond purely economic dimensions which focus only on income comparisons to emphasize other dimensions such as social and political inequality. In fact, discussions on inequality inevitably link themselves to the notion of equity since inequalities are largely identified with conditions in which equity is violated.

Ebyen and Lovett include a number of components in the inequality discourse.<sup>4</sup> Prominent among them are the ideas of disparities in consumption or assets, capability deprivation and social exclusion. Disparity in distribution, consumption or assets uses measures such as the Gini coefficient and is largely positivist in its approach. This line of reasoning is guided by the rational choice theory which focuses on objective measurement. The capability deprivation idea on the other hand, introduced ethics into the inequality debate. The focus was on how to ensure basic capabilities without which equal distribution of resources may not result in equal outcomes. This focus on equality however, rooted itself with the individual and did not ask between whom.

Jones put forward the conditions in which inequality may arise by examining the same through the principles of equity.<sup>5</sup> He argued that for equity to exist there should be no differences in outcomes on the basis of factors over which people have no control such as the family that one is born into or its circumstances. Outcomes, here, understood

<sup>4</sup> R. Ebyen and J. Lovett. "Political and Social Inequality: A Review," *IDS Development Bibliography*, 20, IDS Sussex, 2003, <https://www.ids.ac.uk/files/Db20.pdf>

<sup>5</sup> H. Jones. *Equity in Development: Why it is Important and How to Achieve it.* London: Overseas Development Institute, 2009.

as health, education, work and so on if denied is seen as a violation of providing equal life chances to people. He also argued that necessary goods and services be distributed in accordance to people's needs and nothing else. Necessary goods here refer to shelter, physical security, health care, water and sanitation, education, food and nutrition, etc. The logic goes that these goods and services be distributed to all those who are lacking in them to the extent to which these goods are missing from their lives. Thus, if basic needs that are equally needed by all people are made available on the basis of the ability to pay, then it leads to unequal outcomes. On the other hand, the meritocracy principle requires people to be rewarded on the basis of their merit which could be seen in terms of their effort, qualifications and choices that they make. The principle is violated when considerations of family background, ethnicity, gender or caste override the true merit that the individual deserves. Thus, there are a variety of perspectives on treating and understanding inequality ranging from purely economic to non-income based approaches.

#### **4. Social Implications of Inequality**

Inequality is seen to have not just economic implications but also social implications in terms of impacting crime rates, health, happiness, saving patterns, risk taking behaviours, social capital (as reflected in levels of trust) and social participation. The following discussion covers some of these aspects by looking at the theoretical foundations and also providing an empirical review.

##### **4.1. Inequality and Crime**

There are three very influential theories, both from the disciplines of economics and sociology, predicting that inequality increases crime rates, viz. the economic theory of crime,<sup>6</sup> strain theory<sup>7</sup> and the social disorganisation theory.<sup>8</sup> These theories attempt to explain how crime

<sup>6</sup> Gary S. Becker. "Crime and Punishment: An Economic Approach." *Journal of Political Economy* (Chicago Journals) 76, 2 (1968), 169-217.

<sup>7</sup> Robert Merton. "Social Structure and Anomie." *American Sociological Review* 54, 5 (1938), 597-611.

<sup>8</sup> Clifford R. Shaw and Henry Mckay. *Juvenile Delinquency in Urban Areas*. Chicago: University of Chicago Press, 1942.

rates vary through the differing incentives and pressures that individuals may face in different unequal social and economic environments. According to the economic theory of crime, when poor individuals with low returns from markets are situated near high-income individuals who have goods worth taking, it increases the returns to time allotted to criminal activity. The economic logic here comes out very strong in that an individual's decision to commit a crime is dependent on whether the criminal gains net of the potential cost of punishment are greater than the potential gains from legitimate work. Strain theory argues that individuals feel frustration in situations when others around them are successful. The greater the difference in terms of inequality, the greater will be the strain and correspondingly, the inducement to commit crime. According to social disorganization theory, poverty is one factor that weakens the mechanism of social control, and when social mechanism is weak, crime rate increases. In this instance, inequality is linked with crime because of its association with poverty.

Apart from theoretical literature, there are also empirical papers that verify the linkage between inequality and crime in different countries. Kelly argued that in the United States, there is a strong and robust impact of inequality on violent crime, despite controlling for the effect of poverty, race and so on.<sup>9</sup> Kang also found that in the United States, after employing a county level income inequality data, the positive correlation between economic inequality and violent crime is particularly true of economic segregation across neighbourhoods instead of within-neighbourhoods.<sup>10</sup> Another study indicates the causal effect of inequality on crime in Mexico. The study employed data of inequality and crime for more than 2000 Mexican municipalities over a twenty year period. This study found that a one-point increment in the Gini coefficient between 2006 and 2010 reflects an increase of over ten drug-related

<sup>9</sup> Kelly Morgan. "Inequality and Crime." *The Review of Economics and Statistics* 82, 4 (2000), 530-539.

<sup>10</sup> Songman Kang. "Inequality and Crime Revisited: Effects of Local Inequality and Economic Segregation on Crime." *Journal of Population Economics* 29, 2 (2016), 593-626.

homicides per 100,000 inhabitants.<sup>11</sup> Cheong and Wu found that western theories of crime can be equally applicable in Asia, particularly, China. Their study found that crime rate is positively correlated with intra-provincial regional inequality. In addition, crime rate is also found to increase with an increase in inflation and unemployment rates.<sup>12</sup> In the Indian context, interesting study by Sharma found that the expenditure ratios of Scheduled Castes and Scheduled Tribes (SC ST) to upper castes are positively correlated with crimes. This relationship is largely driven by changes in the upper castes' economic well-being rather than a decline in the economic position of lower castes. Further, distinguishing between violent and non-violent crimes, the study found that violent crimes are more responsive to changes in economic gaps. Similar to hate crimes in different parts of the world, several untouchable castes and tribal groups in India have been victims of crime and atrocities at the hands of the upper castes in the form of rape of women, illegal land encroachments, harassment of lower castes village council heads, forced eviction and so on. The study employed district level official data on crimes against STs and SCs and per capita expenditures as a proxy for standard of living and found that the incidence of caste violence is positively correlated with the ratio of expenditures of lower castes and tribes to that of upper castes. The study also found that among the largely violent crimes, it is the non-body crimes (crimes that seeks to deprive the victim of his property which is symbolic of his material progress) which are affected by changes in relative standards of living.<sup>13</sup>

There are also studies which examine ways by which inequality might affect individual well being as indicated by lower happiness and health. There is adequate evidence to show that inequality can also be explained with the help of the concept of relative deprivation, a concept most often used to understand the impact of inequality at the individual

<sup>11</sup> Enamorado et al. "Income Inequality and Violent Crime: Evidence from Mexico's Drug War." *Journal of Development Economics* 120 (2016) 128-143.

<sup>12</sup> James Cheong and Yanrui Wu, "Crime Rates and Inequality: A Study of Crime in Contemporary China." *Journal of the Asia Pacific Economy* 20, 2 (2015), 202-223.

<sup>13</sup> Smriti Sharma. "Caste-based Crimes and Economic Status: Evidence from India." *Journal of Comparative Economics* 43, 1 (2015), 204-226.

level. The concept of relative deprivation has been defined by Runciman as follows: "We can roughly say that [a person] is relatively deprived of X when i) he does not have X; ii) he sees some other person(s), which may include himself at some previous or expected time, as having X, iii) he sees it as feasible that he should have X." He further adds: "The magnitude of a relative deprivation is the extent of the difference between the desired situation and that of the person desiring it."<sup>14</sup> Following such an understanding, a useful index of inequality can be constructed using the notion of relative deprivation. Sen gave a similar perspective in his reinterpretation of the Gini coefficient. According to him, an individual with lower income is likely to suffer from depression and the average of all such depressions in all pair-wise comparisons if proportional to the differences in income will become the Gini coefficient.<sup>15</sup> Kakwani also developed the idea of the Relative Deprivation Curve (RDC) using the concept of income shortfalls of certain individuals from their richer counterparts and showed that the area under the RDC curve is the Gini index for the society.<sup>16</sup> Both objective well being as indicated by a fulfilment of basic needs and rights such as health or education as well as subjective well being based on general life satisfaction and happiness are seen to diminish with relative deprivation. The literature examined in the ensuing section focuses on two important components of well being namely health and happiness in relation to inequality.

#### **4.2. Inequality and Health**

One of the most important implications of inequality is on the health of individuals which could be traced through some historical perspectives. Empirical literature on hunter-gatherers has shown that societies were strictly egalitarian and had punishments that may go up to death for those who deviated from the norms of equal sharing of food. Since storing arrangements did not exist given the occasional

<sup>14</sup> W. G Runciman. *Relative Deprivation and Social Justice*. London: Routledge, 1966.

<sup>15</sup> Amartya Sen. *On Economic Inequality*. Oxford: Clarendon Press, 1973.

<sup>16</sup> N. Kakwani. "The Relative Deprivation Curve and Its Applications." *Journal of Business and Economic Statistics*, 2 (1984) 384-394.

killing of large animals, this practice of ensuring that all people adhere to equal sharing must have been an evolved preference for fairness and equality.<sup>17</sup> On the contrary, the research on primates, not humans, through establishing links between rank and health has been seen as another way of viewing inequality and health. Primates existed prior to the hunter gatherer phase. The superior animals, to establish a higher rank over the less powerful animals continually used extreme physical violence resulting in repeated episodes of stress for the inferior animals. The bio-chemical system of stress response though protective in the short run, loses its capacity in the long run and eventually becomes a permanent health hazard.<sup>18</sup> Given the animal results, Deaton provides a powerful explanation that there is a cascading of threat and violence on individuals who are in lower ranks and the extent of such threat varies positively with the number of people in higher ranks.<sup>19</sup> This is because people who are threatened and insulted by those above them tend to inflict the same on those below them and thus people in the lowest ranks reel under the inflicts of not just their immediate superiors but of the whole hierarchy above them. Studies measure relative deprivation as the difference between the income of a lower status individual and the incomes of richer counterparts. With rises in the income of high income earners or number of high income earners, relative deprivation also rises. However, it may be kept in mind that relative deprivation is not just measured in terms of income differences but also in terms of rank and status.

Empirical studies on the link between relative deprivation and health have also been well documented. Besides the negative impacts on macro-social indicators like life expectancy and mortality, relative

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<sup>17</sup> D. Erdal and Andrew Whiten, "Egalitarianism and Machiavellian Intelligence in Human Evolution," in P. Mellars and K. Gibson eds., *Modeling the Early Human Mind*, Cambridge: McDonald Institute Monographs, 1960, 139-60.

<sup>18</sup> Robert M. Sapolsky. "Endocrinology Alfresco: Psychoendocrine Studies of Wild Baboons." *Recent Progress in Hormone Research* 48 (1993), 437-68.

<sup>19</sup> Angus Deaton. "Relative Deprivation, Inequality, and Mortality." NBER Working Paper 8099, 2001, [http://www.princeton.edu/rpds/papers/pdfs/deaton\\_relative\\_deprivation.pdf](http://www.princeton.edu/rpds/papers/pdfs/deaton_relative_deprivation.pdf)

deprivation also has a negative impact on psycho-social health.<sup>20</sup> Individuals with low incomes relative to their peers may experience depression and loss of self esteem resulting in higher incidence of heart diseases, blood pressure, suicidal tendencies and engagement in poor health habits such as smoking and alcohol abuse. Thus, individuals with high levels of absolute income may still feel deprived, if in a relative sense, they are earning lesser than their peers. The difficulty, however, is to identify the reference group with which an individual compares himself or herself.<sup>21</sup> Besides, differences in statuses among people set off a spirit of competition, and triggers feelings of anxiety, threat and stress resulting in poor health outcomes. It has been found that relative deprivation may also generate intergenerational health impacts. In China, children from relatively deprived households suffer from malnutrition because their families spend lavishly on ceremonies and social occasions to avoid shame and to be at par with their better off peers thereby reducing expenditure on food consumption.<sup>22</sup>

#### **4.3. Inequality and Happiness**

The Easterlin paradox<sup>23</sup> had shown that despite significant increases in per capita GDP, the average life satisfaction had not increased. Verme<sup>24</sup> argues that subsequently many studies were conducted to explain this paradox and a few stylized facts emerged from the same. Firstly, the marginal returns for countries as well as individuals decrease with increases in income. Thus, poorer countries and poorer individuals will show a positive relationship with income than richer countries or richer individuals. Secondly, absolute income does not explain happiness completely. Relative income which is income of an individual relative

<sup>20</sup> Richard Wilkinson. *Unhealthy Societies: The Afflictions of Inequality*, London: Routledge, 1996.

<sup>21</sup> Christine E. Eibner and William N. Evans. "Relative Deprivation, Poor Health Habits and Mortality." *Journal of Human Resources* 40, 3 (2005), 591-620.

<sup>22</sup> X. Chen and X. Zhang. *Costly Posturing: Relative Status, Ceremonies and Early Child Development in China*, UNU-WIDER Working Paper No. 201270, 2012.

<sup>23</sup> Richard Easterlin. *Does Economic Growth Improve the Human Lot? Some Empirical Evidence*. New York: Academic Press, 1974.

<sup>24</sup> P. Verme. *Happiness, Deprivation, and the Alter Ego*, ECINEQ, Society for the Study of Economic Inequality Working Paper No. 155, 2010.

to that of the reference group is more useful in explaining happiness especially because richer countries are more sensitive to relative income than poorer countries. Thirdly, happiness is determined by a complex set of factors such as past income, income growth including income of a reference group. Verme also proposed a model which showed that the Alter ego system (cross section comparison with others) and not the Ego system (comparison with oneself over time) was more important for happiness. However, there are also studies that show a positive relationship between relative deprivation and happiness in countries where the peer groups' income provides a basis for social comparisons and shapes expectations for the direction of one's own income in future.

#### **4.4. Inequality and Individual Decision Making**

Behavioural psychologists have tried to uncover through lab experiments that people make decisions based on frames of references and that by changing the frames of reference, a rise in inequality could change the way people make economic decisions.<sup>25</sup> The causal mechanisms between inequality and decision making can be explained in a couple of ways. Robert Frank had suggested that high inequality has the effect of spiking expenditures on consumption just to "keep up with the Joneses." This increased the chances of financial distress and insolvency. Rajan<sup>26</sup> observed that with rising income inequality, household indebtedness tends to increase, particularly among lower income groups.

It was also shown that countries that were more unequal economically had respondents exhibiting more self-enhancement, a positive bias about oneself and one's traits.<sup>27</sup> The possible implication of the same is that it could affect risk taking or risk appetite resulting in decisions which need not be completely rational but rather based on a

<sup>25</sup> David Moss, Anant Thaker, and Howard Rudnick, *Inequality and Decision Making: Imagining a New Line of Inquiry*, Harvard Business School Working Paper No. 13-099, 2013.

<sup>26</sup> Raghuram Rajan. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, NJ: Princeton University Press, 2010.

<sup>27</sup> Steve Loughnan et al. "Economic Inequality Is Linked to Biased Self-Perception." *Psychological Science* 22, 10 (2011), 1254-1258.

false judgment about one's own abilities. In such a case, individuals are not guided completely by rational choice theory.

Schor<sup>28</sup> showed that personal savings rate of an individual was greatly influenced by the individual's income position relative to that of her friends, co-workers or relatives, in other words, the reference group. It was also found that average saving rates fell despite income gains among the highest income groups. This is largely because concentration of income gain among the high income individuals triggered off an increase in expenditures among the lower earners.<sup>29</sup> Stiglitz coined the phrase "trickle-down behaviourism" for such behaviors.<sup>30</sup>

Relative income inequality is also seen to have an effect on working hours of individuals. It is observed that people have a tendency to make social comparisons with richer reference group above them which induces them to work longer hours.<sup>31</sup> In another related study, it was revealed that a woman's decision to work depends partially on the income and employment status of other women such as sisters or sister-in-laws. A woman with a non-working sister was likely to be working if her husband was earning lesser than her sister's husband, thus, providing support to the relative income hypothesis.<sup>32</sup>

It is also seen that one's position in the income distribution affects one's appetite for risk taking. It was found that people lower in the income distribution played lotteries in the hope of improving their relative position though they could not really afford to do so. It was argued that "last place aversion" induces riskier behaviour. In an experimental set up, respondents were given specific dollar amounts and told of their

<sup>28</sup> Juliet B. Schor. *The Overspent American: Upscaling, Downshifting, and the New Consumer*, New York: Basic Books, 1998.

<sup>29</sup> Robert H. Frank, Adam Seth Levine and Oege Dijk, *Expenditure Cascades*, Working Paper, 1-34, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1690612](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1690612), 2010.

<sup>30</sup> Joseph E. Stiglitz. *The Price of Inequality*. New York: W. W. Norton & Company, Inc., 2012.

<sup>31</sup> Samuel Bowles and Yongjin Park, "Emulation, Inequality, and Work Hours: Was Thorsten Veblen Right?" *The Economic Journal*, 115, 507 (2005), F397-F412.

<sup>32</sup> David Neumark and Andrew Postlewaite, "Relative Income Concerns and the Rise in Married Women's Employment." *Journal of Public Economics* 70, 1 (1998), 157-183.

relative position in the distribution. It was seen that the individuals in the last two positions were most willing to play the lottery which could help them move upward in the distribution. The last person obviously wanted to move up from his last position while the second last in the ladder did not want to slip down to the last position.<sup>33</sup>

It has also been documented that the relatively poor individuals may feel less integrated with the rest of the society, resulting in less social cohesion and poor quality of social relationships.<sup>34</sup> In such cases, inequality is seen to depress participation in social and civic life because when people belong to diverse statuses, they have less in common to share. Putnam suggests that “great disparities of wealth and power are inimical to widespread participation and broadly shared community integration.”<sup>35</sup> Inequality is also seen to significantly lower trust by reducing optimism among people belonging to different socio-economic groups. Reduced feelings of solidarity reduce the stock of social capital.<sup>36</sup>

## 5. Conclusion

This article has reviewed various conceptualizations of inequality as understood through a pure economic concept such as Gini coefficient and non-economic indicator of inequality such as relative deprivation. It has also tried to look into the various social implications of inequality at both macro-social and individual level. Policy interventions targeted at reducing inequality could be either opportunity or outcome based. Outcome based equality is directed at those living in deprivation and focuses largely on income provisions. Equality of opportunity requires

<sup>33</sup> Ilyana Kuziemko, Ryan W. Buell, Taly Reich and Michael I. Norton. ‘*Last-Place Aversion*’: Evidence and Redistributive Implications, NBER Working Paper 17234, <http://www.nber.org/papers/w17234>, 2011.

<sup>34</sup> James House, Karl Landis and Debra Umberson. “Social Relationships and Health,” in Kawachi, Ichiro, Bruce Kennedy and Richard Wilkinson eds., *Society and Population Health Reader: Income Inequality and Health*, New York: The New Press, 1999.

<sup>35</sup> Robert Putnam. *Bowling Alone*, New York: Simon & Schuster, 2000.

<sup>36</sup> Eric M. Uslaner and Mitchell Brown. “Inequality, Trust, and Civic Engagement.” *American Politics Research*, 33, 6 (2005), 868-894.

providing access to services, greater fairness in functioning of markets and guaranteed property rights. However, outcomes can be more easily measured than opportunities.

Inequities in opportunities are often associated with the inability of the individual to shape the world around them within their socio-economic, cultural and political context, in other words, an individual's 'agency'. Institutional biases also further accentuate the limitations imposed by human agency. Rights based approaches, at least in a fairly democratic setting, could possibly help to overcome this agency and address the problem of inequality.

# Economic Inequality and Catholic Social Teaching

**Charles Irudayam**

A strong feature of East Asian economic development included, first of all, an emphasis on public education as a prime mover of change. In this the state played a major role. Second, it also involved a wide dissemination of basic economic entitlements (through education and training, through land reform, through availability of credit), which broadened *access* to the opportunities offered by the market economy. Third, the chosen design of development included a deliberate combination of state action and use of the market economy.<sup>1</sup>

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## 1. Introduction

Global markets are more open and private investment is much more mobile than before. But such capital mobility has brought very little progress for the underprivileged sector in any society, including Indian society. Free markets would probably not bring rapid economic growth

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<sup>1</sup>Amartya Sen, "Economic Development and Capability Expansion in Historical Perspective," *Pacific Economic Review* 6, 2 (2001), 179-191, 183.

to areas where basic infrastructures are lacking and where the physical and mental development of the employees has been impaired through disease, malnutrition, and illiteracy.<sup>2</sup> This new global economic order aggravates economic inequality and produces severe poverty on a massive scale. It results not only massive under fulfilment of social and economic human rights<sup>3</sup> but also contributes significantly to the under fulfilment of civil and political human rights.

When globalisation is not guided by moral principles then it will result in all sorts of injustices. Therefore, Catholic Social Teaching (CST)<sup>4</sup> always upholds moral principles to be our guide even in economics. In this paper we analyse the Indian situation and talk about the term ‘inequality’ and its relationship with poverty. We discuss the economic development and economic inequality. We also highlight the response of the Church through its social teaching and invite the reader to focus on moral principles to be followed in today’s market economy in order to create a just and sustainable society.

## 2. Indian Situation

India is home to the third largest number of technology driven start-ups in the world. It is undergoing a period of rapid transition. It is also obvious that most of the changes in social life are offshoots of the changes in the national economic policy and information technology. It is true that globalization has given to Indian poor, especially to women, opportunities to become a well-recognized work force. Independent jobs with lot of money enable women to try out new freedom but their yearning to be free from the household routine which adds burden to their already stress-filled jobs is not recognised by men. Indian society is uncertain about how to respond to these new demands and the new mores created as a result of market economy.

Though India has enhanced her economic position in recent years, her Gross Domestic Product (GDP) advanced 7.1 percent year-on-

<sup>2</sup> Thomas Pogge, “Priorities of Global Justice,” *Meta Philosophy* 32, 1-2 (2001), 13.

<sup>3</sup> Universal Declaration of Human Rights, article 25.

<sup>4</sup> Hereafter we use the abbreviation CST for Catholic Social Teaching.

year in the second quarter of 2016, slowing from a 7.9 percent expansion in the previous period and missing market expectations of 7.6 percent growth.<sup>5</sup> Since 2014 private consumption expanded at a slower pace while fixed investment dropped further. The present Indian economy seems to be at crisis. The economic troubles in the words of the economists are due to the global financial crisis, Indian demand for gold, high headline inflation, and depreciation of the rupee.<sup>6</sup>

The preamble of our Constitution provides for ‘equality of status and of opportunity to all its citizens.’ At the same time crores of people live in misery and perpetually groan under the burden of unfair practices, unjust policies and gross inequalities. According to Global Hunger Index (GHI) report, India is a home to a quarter of the world’s hungry.<sup>7</sup> Therefore many would say that it is absurd to talk of economic justice in our country, because almost all the traditional and prevalent systems are loaded against social and economic justice.

Article 23 of the Constitution specifically prohibits traffic in human beings, “beggar” and other similar forms of forced labour. But economic exploitation of labour continues with a vengeance - by capitalists, unscrupulous employers, landlords and others. Justice has been continuously denied to innocent citizens. They suffer in silence. There is no sign of justice or fair play in any sphere of activity. Justice is becoming scarcer with every passing year. The coming years hold little promise of restoring social justice in the country. The exploitation of the poor by the rich can be limited by reducing the level of inequality between the rich and the poor, which in turn depends upon reducing poverty through economic reforms.<sup>8</sup>

Economic inequality remains as hindrance to the process of growth and development in India. Despite economic growth in India, we are

<sup>5</sup> Refer <http://www.tradingeconomics.com/india/gdp-growth-annual> (accessed on 02.09.2016)

<sup>6</sup> The Daily News Paper, *The Hindu*, Coimbatore, 17 October, 2013, 13.

<sup>7</sup> *The Times of India*, Coimbatore, October 15, 2013.

<sup>8</sup> Read <http://www.yourarticlerepository.com/economics/indian-economy/economic-inequality-in-india-levels-causes-and-subsidies/39200/> (accessed on 07.09.2016)

unable to reduce inequalities in the Indian society. It is because, our development strategies failed to reduce the extent of regional and sectoral inequalities. Domestic and foreign investments are not directed to backward regions of the country. Already developed states are found to be preferred destination of investment than the underdeveloped states.<sup>9</sup>

### **3. The Term “Inequality”**

Sociologists, who study inequality in modern society, use the terms ‘stratification’ and ‘hierarchy’ interchangeably. But a few sociologists, like Dumont, make a distinction between these two terms. For them, hierarchy is what prevails in society based on caste or estate in which inequalities are considered as right, proper, and desirable, whereas stratification is a characteristic of societies where inequalities are not considered as a part of the natural scheme of things.<sup>10</sup>

Marxists have argued that inequality is the result of the distribution of capital or private property while others have argued in favour of power as a basis of inequality. The medieval Arab writer Ibn Khaldun said, “The possession of power is the source of riches.” Still others have drawn attention to the symbolic order of society as a source of inequality. Bourdieu speaks of the symbolic capital as a useful tool in the study of social stratification.<sup>11</sup> Everyone could accept that unlike material capital, symbolic capital cannot be easily expropriated or redistributed. Its unequal distribution contributes to inequalities of esteem, prestige and status along with inequalities of wealth and power. The divisions of education, occupation, and income combined with language, religion, and caste create a kaleidoscope of shifting social distinctions.<sup>12</sup> As a result of economic injustice and inequality, crores

<sup>9</sup> Read <http://www.gktoday.in/blog/economic-inequality-in-india/> (accessed on 12.09.2016)

<sup>10</sup> Louis Dumont, *Homo Hierarchicus*, Chicago, Ill: University of Chicago Press, 1980, 35-55 and 287-307.

<sup>11</sup> Read M. Bourdieu, *Distinction*, Cambridge: Cambridge University Press, 1984.

<sup>12</sup> André Beteille, *Equality and Universality*, New Delhi; Oxford: Oxford University Press, 2003, 181-203.

of ordinary citizens are pushed to the margins. There is a strong bond between inequality and poverty.

#### **4. Poverty and Inequality**

Poverty and inequality are found in all societies, albeit more visible in some societies than in others. Both social theory and social policy pay much attention to the existing relationship between these two concepts. There is a widespread assumption that poverty and inequality are two sides of the same coin. This assumption is sometimes made explicit but often left implicit. Where there is an increase of the poor, there is an increase of inequality. The study of both poverty and inequality has been closely associated with an interest in economic and social change. If poverty is socially defined and identified by comparison with those who are not poor, then poverty is defined in terms of inequality. Miller and Roby present powerful arguments in favour of viewing poverty as inequality:

Casting the issues of poverty as inequality in terms of stratification leads to regarding poverty as an issue of inequality. In this approach, we move away from efforts to measure poverty lines with pseudo-scientific accuracy. Instead, we look at the nature and size of the differences between the bottom 20 or 10 per cent and the rest of the society. Our concern becomes one of narrowing the differences between those at the bottom and the better off in each stratification dimension.<sup>13</sup>

If developing countries are going to increase their industrial productivity at a fast enough rate and become industrial exporters, then their industrial progress may be able to alleviate poverty to some extent. Industrial capitalism is being criticised by economists and sociologists for having replaced the old hierarchy of estates by a new structure of classes. Marx drew attention to the relentless tendency of the capitalist machine to generate poverty and inequality.<sup>14</sup> The

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<sup>13</sup> Seymour Michael Miller and Pamela A. Roby, "Poverty: Changing Social Stratification," in *The Concept of Poverty*, ed. Peter Townsend, London: Heinemann, 1971, 143.

<sup>14</sup> Aron, *Eighteen Lectures on Industrial Society*, 31-43.

identification of poverty with aspects of inequality means that significant improvements should be made in housing, education, and personal resources available to the poor. Literacy and numeracy help the participation of the masses in the process of economic expansion.<sup>15</sup>

## 5. Education and Economic Development

Public Education can be both favourable to economic growth and favoured by economic growth.<sup>16</sup> The abysmal inequalities in India's educational system represent a real barrier against widely sharing the fruits of economic progress, in general, and of industrialization, in particular.<sup>17</sup> One should recognise that market-based economic success rests on the solid foundations of social change - in education, healthcare, land reforms, etc. - that should occur earlier. Countries like India should keep in mind that solid foundations for social changes should be laid first through their governmental policies in order to bring economic success in the near future.<sup>18</sup>

The inequalities in education are, in fact, a reflection of inequalities of economic and social powers of different groups in India.<sup>19</sup> Sen's capability theory has emphasised the fact that when we focus on developing or increasing the human capability, there will be naturally economic growth in the long run. He speaks of the experience of the economic development in the early period of Japanese development (1868-1911) which focussed on human capability. Education consumed more than 43 percent of the budgets of the towns and villages, for Japan as a whole. He states:

<sup>15</sup> Amartya Sen, *Development As Freedom*, Oxford: Oxford Press, 2000, 144.

<sup>16</sup> Amartya Sen and Jean DrPze, *Indian Development: Selected Regional Perspectives*, New Delhi, 1996, 19.

<sup>17</sup> Amartya Sen and Jean DrPze, *India: Development and Participation*, New Delhi, 2002, 77.

<sup>18</sup> While asked about the solution to the problem of poverty in India, Sen said that the government needs to reduce the over activity in market-oriented reforms and increase its activity in the fields like education, healthcare, land reforms, etc. Refer UNI, *Solution to India's poverty 'within reach,'* by Amartya Sen.

<sup>19</sup> Amartya Sen and Jean DrPze, *Indian Development: Selected Regional Perspectives*, 14.

A strong feature of East Asian economic development included, first of all, an emphasis on public education as a prime mover of change. In this the state played a major role. Second, it also involved a wide dissemination of basic economic entitlements (through education and training, through land reform, through availability of credit), which broadened *access* to the opportunities offered by the market economy. Third, the chosen design of development included a deliberate combination of state action and use of the market economy.<sup>20</sup>

Hence Sen would say, economic development is in its nature an increase in freedom.<sup>21</sup> Economic progress does not just rest on the use of market economy, but includes also educational expansion, public healthcare, and other developments of ‘social opportunity.’ Sen in his book, *Freedom as Development* states, “Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function.”<sup>22</sup>

## 6. Economic Inequality

Economic inequality is the difference found in various measures of economic well-being among individuals, among groups, or among countries. Economists generally focus on economic disparity in three metrics: wealth, income and consumption.<sup>23</sup> The issue of economic inequality is relevant to notions of equity, equality of outcome and equality of opportunity.<sup>24</sup> The term ‘economic inequality’ can refer to cross-sectional distribution of income or wealth at any particular period, or to

<sup>20</sup> Sen, “Economic Development and Capability Expansion in Historical Perspective,” 183.

<sup>21</sup> K. J. Arrow’s Review to Amartya Sen, *Development as Freedom*, Oxford, 2000 [cover page].

<sup>22</sup> Sen, *Development as Freedom*, 142.

<sup>23</sup> “A Three-headed Hydra,” *The Economist*, 16 July 2014.

<sup>24</sup> Michael A. Fletcher, “Research Ties Economic Inequality to Gap in Life Expectancy,” *Washington Post*, Refer [https://www.washingtonpost.com/business/economy/research-ties-economic-inequality-to-gap-in-life-expectancy/2013/03/10/c7a323c4-7094-11e2-8b8d-e0b59a1b8e2a\\_story.html](https://www.washingtonpost.com/business/economy/research-ties-economic-inequality-to-gap-in-life-expectancy/2013/03/10/c7a323c4-7094-11e2-8b8d-e0b59a1b8e2a_story.html) (accessed on 06.09.2016).

changes of income and wealth over longer periods of time.<sup>25</sup> There are various numerical guides and methods for measuring economic inequality.

In India four forms of inequalities are found, namely *inequality of income*, *inequality of consumption expenditure*, *inequality of asset holding*, and *regional inequality*. *Inequality of income* refers to a situation where there is an unequal distribution of income. A small section of society owns large part of nation's income whereas large sections of society are devoid of income. *Inequality of consumption expenditure* denotes to a situation in which a large percentage of total consumption expenditure is incurred by a small percentage of population. *Inequality of asset holding* refers to a situation in which a small section of society holds large percentage of assets, whereas large sections of society hold a small portion of assets. *Regional inequality* talks about inequality of growth process across various states in the country and different regions within a single state.<sup>26</sup>

Since all inequalities generate companion inequalities, we need to decide which ones to combat and which ones to tolerate. Some inequalities are objectionable because of an unreasonably large degree of control over the disadvantaged poor people by the advantaged. Some studies say economic inequality is a social problem.<sup>27</sup> The most common reason for social inequality arises from its association with material deprivation. For Scanlon, social inequality is objectionable, if some people are living in 'terrible conditions' and it will be possible to alleviate their suffering by means of a transfer from better off 'without creating hardships of comparable severity.'<sup>28</sup>

<sup>25</sup> Wojciech Kopczuk, Emmanuel Saez, and Jae Song "Earnings Inequality and Mobility in the United States: Evidence from Social Security Data since 1937," *Quarterly Journal of Economics* 125, 1 (2010), 91–128.

<sup>26</sup> Refer <http://www.gktoday.in/blog/economic-inequality-in-india/> (accessed on 15.09.2016)

<sup>27</sup> Richard Wilkinson, Kate Pickett, *The Spirit Level: Why More Equal Societies almost always Do Better*, Allen Lane, 2009, 352.

<sup>28</sup> Thomas M. Scanlon, *The Diversity of Objections to Inequality*, Lawrence: University of Kansas, 1997, 2.

As Scanlon writes, those who have greater resources “can often determine what gets produced, what kinds of employment are offered, what the environment of a town or state is like, and what kind of life one can live there.”<sup>29</sup> Most of these determinations take place through institutional mechanisms. Hence we could say that large inequalities of resources can objectionably limit a person’s capacity to determine the course of his or her life. Sen’s version of capability not only promotes agency but also advocates institutional arrangements and development policies and practices be evaluated and constructed in relation to the norm of human well-being. Therefore CST always places the human person at the centre of life in society and all its institutions.

## **7. Economic Inequality and Catholic Social Teaching**

Our present model of development has provoked new forms of economic marginalization and economic inequality. CST on authentic human development is a challenge to contemporary Indian society which is marked by disparity, identity and a lack of effective political will. The need of the hour is a call for abandonment of the wrong ideology of development based on technical-economic aspects of life at the expense of the moral-religious dimension and the need for the social democracy which ensures justice, equality of opportunity and development to the poor and the participation of the powerless and vulnerable groups in the projects implemented.

In 1891, in response to a growing disparity of wealth in many regions of the world, Leo XIII’s encyclical *Rerum Novarum*, the Magna Carta of CST, addressed the rights and duties of those with capital who employed labourers and the rights and duties of labourers toward those with greater wealth who employed them. It laid out fundamental principles for the relationship between “capital” and “labour,” and also responded to both negative and positive methods that were being employed to deal with this problem. Pius XII on 24 December 1941 in the “Christmas Radio Message” addressed to the world used the term ‘development’ for the first time officially and said: “The powerful states

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<sup>29</sup> As quoted in Charles R. Beitz, “Does Global Inequality Matter?,” *Metaphilosophy* 32, 1-2 (2001), 106.

have great role in the formation of economic groups, comprising not only themselves but smaller and weaker states as well, and in the interests of the common good they should respect the rights of those smaller states to political freedom to economic development and adequate protection.”<sup>30</sup>

During the Vatican Second, the Council Fathers showed interest to find solutions to human problems and spoke of the unjust economic relations within and between the nations. The Council document, *Gaudium et Spes* examined the relation between the rich and poor countries; cautioned the cases of injustice and economic inequality; and called for an international cooperation between the rich and poor countries.<sup>31</sup> The document *Economic Justice for All* connects social justice with *contributive justice*, which imposes on citizens the obligation to make a contribution to society.<sup>32</sup>

Paul VI in his *Populorum Progressio* speaks of the development “of each man and of the whole man.”<sup>33</sup> For him, development is not merely an economic matter; rather it is a vocation of every human person. For the development to be an authentic one, it must be integral and has to promote the good of every man and the whole man. He says that an authentic development is “for each and all the transition from less human conditions to those which are more human.”<sup>34</sup>

John Paul II affirms the principle of Christian social doctrine: “the goods of this world are originally meant for all.”<sup>35</sup> All that the earth produces and all that human beings transform and manufacture, all their knowledge and technology, is meant to serve the material and spiritual development and fulfilment of the human family and all its members. He asserts:

<sup>30</sup> Pius XII, *Christmas Radio Message* (24 December 1941), AAS 34 (1942) 16-17.

<sup>31</sup> Vatican II, *Gaudium et Spes*, no. 63.

<sup>32</sup> Johan Verstraeten, “Debt Forgiveness, Social Justice, and Solidarity: A Theological and Ethical Reflection,” *Ethical Perspectives* 8 (2001), 18-28, 20.

<sup>33</sup> Paul VI, *Populorum Progressio*, no. 14.

<sup>34</sup> *Ibid.*, no. 20.

<sup>35</sup> John Paul II, *Sollicitudo Rei Socialis*, no. 42.

The globalization of finance, economics, trade and labour, must never violate the dignity and centrality of the human person, nor the freedom and democracy of peoples. If solidarity, participation and the possibility to govern these radical changes are not the solution, they are certainly the necessary ethical guarantee so that individuals and peoples do not become tools but the protagonists of their future.<sup>36</sup>

Benedict XVI in *Caritas in Veritate* observes too much stress on the progress of a merely economic and technological kind and asserts that development needs above all to be true and integral.<sup>37</sup> While upholding the principle of gratuitousness as an expression of fraternity<sup>38</sup> in economic, social and political development to be authentically human, he states, “The economy needs ethics in order to function correctly - not any ethics whatsoever, but ethics which is people-centred.”<sup>39</sup> He further cautions that when business ethics rescinds away from the two pillars, namely, *the inviolable dignity of the human person* and *the transcendent value of natural norms*, it falls prey to the forms of exploitation and at times it includes decisions and choices contrary to justice and human welfare.<sup>40</sup>

Pope Francis has simply been putting his own stamp on traditional CST. His economic opinions may appear naïve to those more worried about productivity trends and price-earnings ratios than the children die out of hunger. In *Lumen Fidei*, he considers creation as a gift for which we are all indebted and links it to the *faith in creating just forms of government which is at the service of common good*.<sup>41</sup> He attacks the “idolatry of money” and calls unchecked capitalism “a new tyranny.” He makes his own criticism on trickle-down economics in *Evangelii Gaudium*, published in November 2013.

<sup>36</sup> John Paul II, *Homily at the Mass for the Jubilee of Workers* (1 May 2000), no. 3.

<sup>37</sup> Benedict XVI, *Caritas Veritate*, no. 23.

<sup>38</sup> *Ibid.*, no. 34.

<sup>39</sup> *Ibid.*, no. 45.

<sup>40</sup> *Ibid.*, no. 45.

<sup>41</sup> Francis, *Lumen Fidei*, no. 55.

Pope Francis' encyclical, *Laudato Si* on climate change has drawn attention from across the world to the challenges of sustainable development. He calls on everyone - not just Catholics and people of faith - to protect the climate as a common good; a system that is essential for human life. He appeals for "a new dialogue about how we are shaping the future of our planet. We need a conversation which includes everyone, since the environmental challenge we are undergoing, and its human roots, concern and affect us all."<sup>42</sup> He poses a clear and radical challenge to political leaders to use this inclusive conversation to start building a different model of economic development that benefits everyone, not just the few. "A true ecological approach always becomes a social approach; it must integrate questions of justice in debates on the environment, so as to hear both the cry of the earth and the cry of the poor."<sup>43</sup>

Due to the great disparities between countries regarding access to technical and scientific knowledge, the process of globalization ends up increasing rather than decreasing economic inequalities between countries in terms of economic and social development.<sup>44</sup> Hence we need to find concrete ways and means which could reduce economic inequalities between individuals and nations. Here we would propose a few.

## **8. Ways Forward**

### ***8.1. The Importance of Ethics***

According to John Paul II, the affirmation of the priority of ethics corresponds to an essential requirement of the human person and the human community. Ethical values cannot be dictated by technological innovations; they are grounded in the very nature of the human person. Ethics cannot be the justification or legitimization of a system, but rather the safeguard of all that is human in any system. It demands that systems be attuned to the needs of the person, and not that the person be

<sup>42</sup> Francis, *Laudato Si*, no. 14.

<sup>43</sup> *Ibid.*, no. 49.

<sup>44</sup> PCJP, *Compendium*, no. 363.

sacrificed for the sake of the system. Hence, all ethics committees should be completely independent of financial interests and vested ideologies.<sup>45</sup>

The human being must always be an end and not a means, a subject and not an object, nor a commodity of trade. Cardinal Roger Etchegaray makes the following remarks at *The People First Conference* that any political or economic system, which produces great inequalities... cannot really be considered to be serving the overall good of humankind. Indeed, even without invoking ethical, moral or religious grounds, an economic system which creates great inequalities is not in the long term sustainable, even economically.<sup>46</sup> Hence we promote ethics in economics as, for example, Amartya Sen did.

### **8.2. Globalisation of Solidarity**

The present scenarios of profound transformation of human work call for an authentically global development in solidarity that is capable of involving every region of the world including those less advantaged. Solidarity between generations demands that global planning take place according to the principle of the universal destination of goods in order that globalization will not occur at the expense of the neediest and the weakest.<sup>47</sup> John Paul II advocates that solidarity can be promoted by defending human rights, for example, the right to food and drinkable water, to housing, to security, to self-determination and independence.<sup>48</sup> What is needed is an authentic global development in solidarity, a globalization without marginalization.<sup>49</sup> Development in solidarity is a necessary genuine condition for the survival of entire peoples. "Solidarity too must become globalized."<sup>50</sup>

<sup>45</sup> John Paul II, *Address to the Pontifical Academy of Social Sciences*, 27 April 2001, no. 4.

<sup>46</sup> Cardinal Roger Etchegaray, *President of the Pontifical Council for Justice and Peace, The PEOPLE FIRST Conference*, Bill Neville, Australia, November 1996.

<sup>47</sup> PCJP, *Compendium*, no. 367.

<sup>48</sup> John Paul II, *Message for the 2003 World Day of Peace*, no. 5.

<sup>49</sup> John Paul II, *Message for the 1998 World Day of Peace*, no. 3.

<sup>50</sup> John Paul II, *Greetings after the Mass for the Jubilee of Workers* (1 May 2000), 2.

### **8.3. From Economic Development to Social Development**

Economic development should lead to social development which is more *global* and which includes a whole series of factors, e.g., education, employment, health, family, integration of the marginalized. It does not exclude several factors of an economic order: availability of capital, investment, the degree of commercial initiatives, etc.<sup>51</sup> Many involved in this field agree that true social development - more equitable, inclusive, and sustainable - cannot be brought about without economic development.

In the early '70's social development was seen as having three concentric circles: 1) The *inner circle* includes the basic responsibilities for the efficient execution of the economic function - products, jobs, and economic growth; 2) The *intermediate circle* encompasses responsibility to exercise this economic function with a sensitive awareness of changing social values and priorities, for example, with respect to environmental conservation, relations with employees, and the rigorous expectations of customers for information, fair treatment, and protection from injury; and 3) The *outer circle* outlines the newly emerging and still amorphous responsibilities of business people to become more involved in actively improving the social environment.<sup>52</sup> Hence it is essential to set up sustainable infrastructures at local, regional, national, and international level so each and every person can participate in the process of development.

### **8.4. Thomas Pogge's Cosmopolitanism**

Thomas Pogge, the main proponents of the project "Global Justice"<sup>53</sup> defines cosmopolitanism as the understanding that everyone stands in certain moral relations to one another and therefore we need to respect the other's status as 'ultimate units of moral concern.' He also speaks

<sup>51</sup> Sabourin, "Social Development and the Fight against Poverty," 50.

<sup>52</sup> As quoted in A. B. Carroll, "Corporate Social Responsibility. Evolution of a Definitional Construct," *Business & Society* 38, 3 (1999), 275. {Carroll, 1999 #319} {Carroll, 1999 #319} {Carroll, 1999 #319}

<sup>53</sup> His ideas on the 'global justice' project can be found in Thomas Pogge, ed., *Global Justice*, Oxford: Blackwell Publishers, 2001.

of legal cosmopolitanism that which asserts the equal legal rights and duties of everyone within a global order.<sup>54</sup> His writings are inclined towards an institutional cosmopolitan conception.<sup>55</sup> For him, an institutional conception postulates the fundamental principles of social justice which apply to institutional schemes for assessing the ground rules and practices that regulate human interactions.<sup>56</sup> An institutional approach involves a concept of distributive justice. Here the issue of justice is not how to distribute a given pool of resources or how to improve upon a given, but rather how to choose or design the economic ground rules that regulate property, cooperation, and exchange and thereby condition production and distribution.<sup>57</sup> His aim is to form an economic order where each participant would be able to meet his or her basic social and economic needs. The poor and the rich coexist within a single global economic order that has the tendency to perpetuate and aggravate global economic inequality.<sup>58</sup> He criticises an unjust global economic order that favours rich and excludes the poor. Hence we propose institutional cosmopolitanism.

## 9. Conclusion

At present the development of people is being evaluated only in relation to economic factors alone leaving out the essential moral-religious dimension of development. It is well said that a too narrow economic concept of development is nothing but disillusionment.<sup>59</sup> Development to be authentic, it has to include the transcendental dimension of the human person as well as the virtue of solidarity which is a firm determination to commit oneself to the common good. We become responsible for the good of all and each and every individual. The ‘other’ will become not an instrument or a work force to be exploited but a neighbour, helper and a brother.<sup>60</sup>

<sup>54</sup> Pogge, *World Poverty and Human Rights*, 66, 169.

<sup>55</sup> *Ibid.*, 168-195.      <sup>56</sup> *Ibid.*, 170.

<sup>57</sup> *Ibid.*, 176.

<sup>58</sup> Pogge, “Priorities of Global Justice,” 14-15.

<sup>59</sup> D. H. Hopper, *Technology and Idea of Progress*, Louisville: Westminster & John Knox Press, 1991, 64-65.

<sup>60</sup> Benedict XVI, *Caritas Veritate*, no. 19.

CST always confirms that development must include not just material growth but also spiritual growth.<sup>61</sup> There cannot be holistic development and universal common good unless people's spiritual and moral welfare is taken into account. Hence the crucial role of the international agencies and political leaders is to guide economic processes by ensuring that the dignity of human person and his/her complete development as a person are respected, in the context of the common good.<sup>62</sup> Let us always remember that "Capital and care don't mix."<sup>63</sup>

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<sup>61</sup> *Ibid.*, no. 75.

<sup>62</sup> John Paul II, *Octogesima Adveniens*, no. 43-44.

<sup>63</sup> Majid Rahnema and Victoria Bawtree, eds., *The Post Development Reader*, 4 ed., London: Zed Books, 2003, 268.

# Inequality and Neoliberalism

Sahayaraj John Stanley

Neoliberalism is the heart of economic globalization. The markets rule the world with the help of certain policies. Two of the important neoliberal governance policies are profit maximization and competition. The neoliberal governance tends to tone down the role of the government and encourage private initiative. The human person is primarily looked upon as homo economicus. The Principal Agent theory is active and focuses on self interest as the driving force. This global scenario that encourages inequality in many forms needs to be studied and countered.

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## 1. Introduction

India is a land of million opportunities. At the same time, it is a land of million challenges and contradictions. India is a difficult country to characterize and Indians not easy to define, especially today when they are in transition, emerging from the shadows of history into the glare of a globalizing world.<sup>1</sup> India is also too big to come under any simple categorization. One cannot easily generalize the life in India, for there is almost an exception to every generalization. One can see the opulence of prosperity with a vulgar display of wealth and at the same time stare into the abysmal, abject poverty that makes a human person cringe in shame.

India has world-class hospitals with cutting edge technologies and at the same time, millions do not have access to basic health facilities.

Indian universities boast of schools of excellence in various faculties, with a dazzling array of departments and famous professors, some even with global partnership, collaboration and continental campus exchange programmes. On the other hand, millions still lack basic education. One can see the problem of inequality in many spheres of the society.

Today we are at the crossroads and our nation is very much influenced by globalization.<sup>2</sup> After the dawn of globalization in the nineties, there have been many changes in the Indian society positively and negatively. Many doors of opportunities have been thrown open to the middle class and upper middle class people. Comfort and luxury levels have peaked in the Indian Metropolitan cities. At the same time, there is a silent death of farmers and other segments of people who have no voice. The poor need to have their own space to operate and come up in life.

Neoliberalism has slowly but strongly set its foot in India with its dangerous ideologies. Concepts like unbridled consumerism, competition, success at any cost - all these have become treasured ideals of the Indian middle class. If one wants to understand economic globalization and the growing inequality, then one has to reach the concept of neoliberalism, which is the backbone of economic globalization.

## **2. Neoliberalism: The Enigmatic Paradigm**

What is neoliberalism?<sup>3</sup> Neoliberalism proper is the set of principles about the economy's workings, and the economy's relations to the society, politics and government. They emerged originally in economic thought, but under particular circumstances, in the 1980s-2000s,

<sup>2</sup> One has to differentiate between "Globalism" and "Globalization." According to Ulrich Beck, *globalism* is the ideology of world market, the ideology of neoliberalism. Here the market eliminates political action. There is 'negative globalism' as well as 'positive globalism.' *Globalization* is the process through which sovereign national states are crisscrossed and undermined by transnational actors with varying prospectus of power, orientations, identities and networks. What is in discussion is the "*Economic Globalization*" that is much connected with trade and international business.

<sup>3</sup> In fact, it is bit difficult to find a coherent, good definition of neoliberalism. Many of the authors fail to give a strong, exact description. After much searching, I am now relying on Nick Couldry, Professor in the London School of Economics.

developed into a dominant ‘doctrine’ for political and social organization.<sup>4</sup> Neoliberalism wanted to establish that financial markets are always self-correcting. The proponents of this ideology suggest that the markets would not cross barriers and would not harm people.

The ‘neo’ in liberalism began after the collapse of the Keynesian economic system in the late seventies. It gained popular support and encouragement from world leaders like Ronald Reagan and Margaret Thatcher. It is a system that was fully market oriented. The neoliberalism concentrates more on ‘contracts’ than on real property.<sup>5</sup> Neoliberalism, since focusing on the markets, sees the whole world as a market place, the human person as an entrepreneur and competition and financial success as the everlasting and enduring mantras. Some of the major points of Neoliberalism that could be highlighted are as follows:

*The Supremacy of the Markets:* This is the position of the extreme right wing politicians who favour a free market. Here, the market and the market forces decide everything. This is like “What is good for Dalal Street, is good for the entire India.”<sup>6</sup>

*Government Favouring Companies:* In India, there is a blatant government favouring of the private companies. The government bend rules for the corporate sector and turn a blind eye towards strict enforcement of rules and regulations. These regulations are only in paper.

*Supremacy of the Corporations:* Companies rule India today, through their political parties. Companies as well as their Chairmen are identified with certain political parties.<sup>7</sup>

<sup>4</sup> Nick Couldry, *Why Voice Matters*, London: Sage Books, 2010, 23.

<sup>5</sup> I have taken and edited ideas from the following website: *Neoliberalism: Origins, Theory, and Definition*, from <http://web.inter.nl.net/users/Paul.Treanor/neoliberalism.html>. Accessed on 19<sup>th</sup> April 2016.

<sup>6</sup> Dalal Street is in Mumbai and is the Wall Street of India. I have slightly changed the original, “what is good for the Wall Street is not good for the Main Street.” Actually, it all began with Henry Ford who said, “*What is good for Ford is good for America*,” meaning to say that what is good for corporations is also good for the country as a whole.

<sup>7</sup> Gautam Adani, a prominent businessperson from Gujarat is close to Prime Minister Modi, along with Mukesh Ambani, the richest industrialist in India. Congress party too has its own preferred corporate giants.

*Domination of the Western Financial Powers, through their Ideologies and Institutions:* This comes in a very subtle way. The foreign powers through their Foreign Direct Investment and other such investments try to have a solid hold on the policy making of the government. The person, who pays the bill, obviously has the pull. The government, when it straightaway cannot implement anything that angers the public, does a tight-rope walking but finally implements what the donor wants.

*Government Withdrawal from Public Services:* In a country like India, there is a gradual withdrawal of the government from providing people the basic public services like distributing food grains, managing electricity, providing transport facilities and looking after public health. The present finance minister of India Arun Jaitley wants to stop, what he calls the “Subsidy Regime.”<sup>8</sup> The original idea of subsidy is by subsidizing, removing inequality and to have a level playing ground.

The sectors worst affected are, the food sector, the health sector, the transportation sector and more importantly, the education sector. Obviously and indirectly, the government supports the private parties who are slowly becoming masters in all these respective fields.

*Engineering Artificial ‘Consent’:*<sup>9</sup> Not only market ‘demands’ are created artificially, but also the popular ‘consent’ is artificially created to support the decision and mandate of the government and to support corporate decisions.

*Creating and Supporting a Dominant Nationalistic Ideology:* The government of India today is unashamedly and deliberately

<sup>8</sup> Puja Mehra, “No More Subsidized Kerosene through PDS,” *The Hindu*, 5<sup>th</sup> December 2014. Online in: <http://www.thehindu.com/news/national/no-more-subsidised-kerosene-through-pds/article6662420.ece>. Accessed on 19<sup>th</sup> April 2016.

<sup>9</sup> Noam Chomsky has a book under the title *Manufacturing Consent: The Political Economy of the Mass Media*. This book explains how ‘Propaganda’ is being used as a model and weapon for disinformation. Ultimately, this information is used to spread the ideology of the powerful and not of the weak and oppressed. See Noam Chomsky, *Manufacturing Consent: The Political Economy of the Mass Media*, New York, Pantheon Books, 1988.

following the dictates of RSS, the extreme Hindu right wing party. The supporters of this ideology do not believe in a pluralistic society. They believe that India is a country only of the Hindus and all others should be at the mercy of this majority people.

*Creating Fear Psychosis:* The neoliberal policies create a fear psychosis among the ethically oriented government officials. If someone does not toe the line of the government, she/he is sure to face discrimination. In India, many of the whistle blowers are killed or simply silenced or disappeared.

*No Love for the Poor and the Vulnerable:* Many foreigners were thrilled to see the English film, “Slumdog Millionaire” that portrayed the efforts of a young boy who became the millionaire. This film rose to prominence, by projecting the life of the infamous Mumbai slums. The other side of the story is that today every big city is harbouring a slum. Neo liberalism has no love for the poor and vulnerable.

### 3. Neoliberal Government and Governance

Two decades have passed in India, since the start of globalization. There have been many studies on the impact of neoliberalization on the Indian economy and people.<sup>10</sup> Emerging economies like India and other developing nations are under great pressure from developed countries to toe their line. The developing countries are urged to follow the restructuring methods and good policies that favour free markets and deregulation, the one that are prescribed by international agencies, the agencies that have the power of money.

<sup>10</sup> Actually, one can see a divide among the academics. In the learned circles, there is a big discussion and a debate going on: on what is the best developmental model for India. There is one big powerful group arguing for “Growth.” One of the main ideological supporters for this group is the famous Indian born United States professor Jagdish Bhagwati. On the other hand, there is another vociferous group, calling for more funding on basic infrastructure like education and health. This camp is headed by another famous Indian born British professor Amartya Sen. Bhagwati’s books like *In Defense of Globalization* stoutly argue for growth and Sen’s books like *Development as Freedom* argue for a more holistic approach. There is still tension between these two academically warring groups! I would like to toe the line of professor Sen than professor Bhagwati.

Manfred B. Steger and Ravi K. Roy point out in their book, that in the early 1980s, a novel model of public administration known as ‘new public management’ took the world’s state bureaucracies by storm.<sup>11</sup> This enterprise-oriented method gave a new twist and thrust to governmental approach to people. Citizens were redefined as “Customers” or “Clients” and the government staff were encouraged to cultivate an ‘entrepreneurial spirit.’ They also point out to the following ten government objectives:

1. Catalytic Government: Steering Rather than Rowing.
2. Community-Owned Government: Empowering Rather than Serving.
3. Competitive Government: Injecting Competition into Service.
4. Mission-Driven Government: Transforming Rule-Driven Organizations.
5. Results-Oriented Government: Funding Outcomes, Not Inputs.
6. Customer-Driven Government: Meeting the Needs of the Customer, Not the Bureaucracy.
7. Enterprising Government: Earning Rather than Spending.
8. Anticipatory Government: Prevention Rather than Cure.
9. Decentralized Government: From Hierarchy to Participation and Teamwork.
10. Market-Oriented Government: Leveraging Change through the Market.<sup>12</sup>

The agenda of the neoliberal view would become clear if one analyses the ten objectives carefully. The objectives talk about markets that are freed from government control. The markets need to be free of any outside control, monitoring or regulation. Markets become the ultimate force. The agenda in direct and subtle way tried to inject competition. This agenda emphasizes on “quality” and ‘efficiency’ but in a very subtle way they discriminate people who are less privileged. Thus there is a systematic creation of inequality.

<sup>11</sup> Manfred B. Steger and Ravi K. Roy, *Neoliberalism: A Very Short Introduction*, London: Oxford University Press, 2010, 13.

<sup>12</sup>Ibid.

On 4 March 2014, Subrata Roy, the chief of Sahara India groups, together with two of his group directors were produced in the Supreme Court of India. The police charged Subrata Roy of cheating the government and investors. Subrata Roy was ordered to repay the investors, Rupees 20,000 crore. When he was produced in the Supreme Court, the following was the drama that transpired between Subrata Roy and the Judges:

*"If you hear our story, you will love us and you will pat us,"* was how Sahara chief Subrata Roy described in the Supreme Court...*It is a beautiful human story. If you hear our story, you will love us and you will pat us,* he said. However, the bench said, *"We will love you if you pay the investors' money. We will love you if you obey the rule of law. We will love you if you comply with our judgment - all through, you have engaged the best and the most bright counsel for arguing your case but you have not made payment to investors,"* the Supreme Court bench said.<sup>13</sup>

This is just one simple example of a corporate crook. When analyzing the case of this con man who has managed to dupe people and the government, one cannot forget the compliance of the government, that created rules and regulations for people to bend them. Subrata Roy was a creation of neoliberal policies that centred on liberalization and free market capitalism. Since the neoliberal ideologies have 'market' as their god, the ideologies would like to push and promote a government that favours and encourages individual property rights, safeguard individual as well as corporate entrepreneurial freedom, a free market, situations that is conducive to hire and fire labourers at will and other such pro-business elements.

#### 4. The Principal Agent Theory

Another major theory of the neoliberal school is the "Principal Agent Theory." According to this theory, there is the 'principal' who is the

<sup>13</sup> "Subrata Roy in Tihar Jail, He Tells Supreme Court, 'if you hear our story, you will love us,'" *Times of India*, 4 March 2014.

one who has money and there is the ‘agent’ who receives the money but who could act on his/her own will. The theory does not believe in the goodness of the agent, rather believes that this agent has her/his ‘self-interest’ as the best norm to pursue than the interests of the principal. The theory was vehemently applied, having the government as the principal. Therefore, a neoliberal expert would argue that the agents, the public officials will not bother about executing the functions of the principal (government) but rather will fulfil her/his own selfish goals.

The age-old societal business practices began with reciprocal cooperation and exchange of goods. There was mutual trust, faith in the other person and co-operation. On the other hand, the neoliberal policies had ‘suspicion’ as its basic tenant. The ‘principal’ who is ever suspicious of the agent, would like to keep the agent under constant surveillance.<sup>14</sup>

Surveillance is connected with power, dominance and authority. In today’s business as well as in day-to-day transaction of organizational work, people are constantly being watched.<sup>15</sup> This surveillance, in the market context is obviously connected with productivity. The neoliberalist concept would like to form people according to its own creed. This is a pure form of segregation and creates societal inequality.

These concepts shape the individual and the community’s values, work and worldview. In the economically developed countries, one

<sup>14</sup> Edward Snowden became famous in 2013. He began leaking sensitive information from the National Security Agency of the United States to the mainstream media. He told the outside world, how the United States is keeping a close watch on its people. Beginning this episode, there was a lot of discussion on privacy and surveillance. There were editorials written and discussions held on the theme of “Surveillance Society.” India is not lagging behind in this dirty job of surveying its own people.

<sup>15</sup> “The more strictly we are watched, the better we behave”: this phrase is attributed to Jeremy Bentham. The notion of constant surveillance is better described in the writings of Jeremy Bentham. In his famous concept of “Panopticon” Jeremy Bentham writes about a penitentiary where the inmates could be watched from all the sides, all the time. See Miran Bozovic, ed. *Panopticon Writings, Jeremy Bentham*, London: Verso, 1995, 29-95.

can see the mounting backlash against the neoliberal policies. They come in various forms. Apart from popular protests against trade and business policies, there is also a considerable rise in the extreme right wing political parties and individual politicians. India, though still a developing nation, is also experiencing many of these contradictions.

## 5. Profit Maximization

We live in the era of economic globalization and around the world corporate houses are doing busy business. Many young men and women want to study business related courses so that they would get a plum post in the corporate sector with a hefty pay check. Many developing countries are going ahead with their pro-market plans and the free market economy has spread its tentacles in every aspect of social life. Today, many of the corporations' mottos have changed from 'profit maximization' to 'profit optimization.'

Profit is good, but how much profit is good? In the name of 'profit optimization,' can corporations plunder mother earth? In a free democracy, are there no checks and balances to stop the corporate looting and ransacking? These are some of the hard questions that demand answers.

It is observed that the neoliberal edifice rests on three pillars.<sup>16</sup> One can equate these pillars to three economic models or to three paradigms that sustain the entire neoliberal structure. These are: 1) An ideology 2) A mode of governance and 3) A policy package. An ideology gives a philosophical certitude and grounding to a thinking. In the case of neoliberalism, this ideology was built on the classical theory of enlightenment and Adam Smith's concepts on free market ideologies that stressed the role of individual freedom. Ideologies give a certain passion to the ideologues who begin to argue and construct theories to sustain their theories. Ideology also comes with certain worldviews that push and legitimize certain political interests. Ideologies defend and challenge certain power structures. In the case of neoliberal

<sup>16</sup> Manfred B. Steger and Ravi K. Roy, *Neoliberalism: A Very Short Introduction*, 11.

ideology, there are people who criticized it as the voice of powerful elite minority.<sup>17</sup>

David Harvey gives a strong criticism of neoliberalism and writes that the neoliberal ideology is towards the restoration of class power again to the elites of the society.<sup>18</sup> The so-called ‘gurus’ of this particular ideology weave a web of images and concepts and sell them to the people who are many times unaware about the manoeuvrings and manipulations behind certain political policy moves by certain people in power. The neoliberal ideology ushers in a certain type of government style and functioning. Neoliberal ideology that is shepherded by the governmentality<sup>19</sup> comes with certain policy packages. Structural adjustment policies, the effort to regulate the intellectual copy right issues, policies with regard to manufacturing, safeguarding, promoting and saving for future generations - all are controlled with the neoliberal lenses resting on power relations.

The neoliberal governmentality rests on entrepreneurial goals and visions such as competitiveness, self-interest and deregulation and fully enforces the views of “Homo Economicus” - and sees the human person as a person of the enterprise. It focuses on the effectiveness of the labour force and tries to maximize the labour contribution. The human capital is disciplined and controlled for greater profit.<sup>20</sup> David Harvey writes that according to this theory, the neoliberal state should favour strong individual private property rights, the rule of law, and the institutions of freely functioning markets and free trade.<sup>21</sup> It is a complex situation and all the above are closely interrelated. The base would be individual private property, because only then the individual or the corporate company can push its agenda.

<sup>17</sup> David Harvey, “Neo Liberalism as Creative Destruction,” *The Annals of the American Academy of Political and Social Science* 610, 1 (2007) 22-44.

<sup>18</sup>Ibid.

<sup>19</sup> The notion of “Governmentality” in Michel Foucault can be seen as the best example for this “mentality”—where the State would like to incessantly watch, regulate and feed the “Biopower.”

<sup>20</sup> See the essay by Weiskopf and Munro, “Management of Human Capital: Discipline, Security and Controlled Circulation in HRM,” *Organization* 19, 6 (2011) 685-702.

<sup>21</sup> David Harvey, *A Brief History of Neoliberalism*, 64.

This particular business venture has to be protected from unruly elements that hinder work and profit. In the neoliberal view, private enterprise and entrepreneurial initiative are seen as keys to innovation and wealth creation. The work of the enterprise is legally protected through the patent regime and through the intellectual copyright acts. Many advocates of neoliberal policy believe in the general positive view that “A rising tide lifts all boats” or the famous “Trickle-down” theory. In reality, these trickle-down theories fuelled economic inequality.

## 6. Competition at the Heart of Neoliberalism

In today’s neoliberal world, competition is manufactured.<sup>22</sup> Like a commodity that is carefully being assembled and manufactured, the market for competition is meticulously planned and executed. This we see especially in the urban planning and organizing space in the big as well as small emerging cities in the developed and developing countries. There is a constant flow of people migrating from villages to towns and these movements pose greater challenges to civic authorities. There are also growing interest in the way the city space is managed.

The neoliberal market tendency also creeps in here, and there comes a competition among cities. One cannot be naïve and think that this competition between cities has nothing to do with markets. When there is competition and when some city is declared as the “Best City in the world” in today’s international media organs, and when this statement is splashed as a ‘newsworthy’ item, the world listens, and then, automatically, the value of the ground in this ‘particular’ city goes up. Apartments become more costly, because of this ‘manufactured’ image and media build up.

What is more, Kornberger points out to a city in the United States as the neoliberal city.<sup>23</sup> It is the city of Sandy Springs, in Georgia,

<sup>22</sup> One can see competition in a healthy way and also in an unhealthy way. The Compendium says, “*Creativity and cooperation are signs of the authentic concept of business competition: a ‘cumpetere,’ that is, a seeking together of the most appropriate solutions for responding in the best way to needs as they emerge.*” See: *Compendium Of The Social Doctrine Of the Church*, Number 343. The problem is that many times, there is no healthy competition.

<sup>23</sup> Martin Kornberger and Chris Carter, “Manufacturing competition: how accounting practices shape strategy making in cities,” *Accounting, Auditing & Accountability Journal*, Volume 23, Number 3, 2010, 325-349.

USA. It is a city thoroughly modelled on the dictates of the neoliberal policies. It is fully privatized. It has the qualities of honesty, efficiency and responsiveness as its brands. Sandy Springs might be an extreme example and might be a neoliberal nirvana to some people but it clearly shows the tendency of running cities as if they were corporations.<sup>24</sup> The neoliberal policies bring in the market mentality and competition and spoil the functioning of civic life. Big cities are today branded and they try to sell themselves to a highest bidder or bidders. The unnecessary ranking and comparison between cities cause anxiety and concern for poor people. These rankings are a symptom and a driver of a ‘civic schizophrenia.’<sup>25</sup>

While there is ranking between cities and making them competitive, there is something worse than city ranking that also takes place today. This is the ranking of educational institutions. In a country like India, it is very common to see rankings of educational institutions around the time of April till July. This is the time of college admissions. Some of the educational institutions are highly publicized through their advertisements. These institutions create and sell a bogus image of reputed, famous institution. On the other hand, many times, they turn out to be colleges without proper infrastructure or qualified professors.

Ranking and the accompanying competition is a new phenomenon not only in India, but also in the international arena. For example, it is pointed out that United States News and World Report began its ranking feature only in 1983, and then expanded it in the 1990s to include annual rankings of colleges, professional schools and graduate programmes.<sup>26</sup> With regard to the rating of law schools, Yale law school dean called the rankings “An Idiot Poll” and Harvard dean described them as “Mickey Mouse.”<sup>27</sup> Michael Souder points out that many consider the rankings too stupid to be taken seriously.<sup>28</sup> While many schools of higher learning resisted the ranking, it is obvious that many schools

<sup>24</sup>Ibid.

<sup>25</sup>Ibid.

<sup>26</sup> Michael Sauder and Wendy Espeland, “The Discipline of Rankings: Tight Coupling and Organizational Change,” *American Sociological Review* 74, 1 (February 2009), 63-82.

<sup>27</sup>Ibid.

<sup>28</sup>Ibid.

were forced to change their curriculum and programmes to suit the needs of the demanding public. This is a sign of market domination. One can see that these rankings and competitions lead again to greater separation of students according to their monetary power and further cement inequality.

## 7. Conclusion: Some Suggestions and Directions

Today, a very strange philosophy of “Sumo Ergo Sum” (I shop, so I exist) is at play now. We live in the dream land of consumerism. In his book, *What Money Can't Buy: The Moral Limits of Markets*, Michael Sandel points out that today everything is up for sale from prison cells to renting out space on one's forehead (or elsewhere on your body) to display commercial advertising.<sup>29</sup> This all pervasiveness of markets needs to be curtailed. The move towards small, simple and sustainable lifestyle needs to be propagated.

The subtle role of ‘Competition’ is extended beyond regional levels. The mantra of competition operates in the individual psyche as well as in evoking strong national sentiments. Society is geared towards “Winners” and “Losers.” This competitive refrain dictates that only the best can be the leaders and only they can inherit the world.<sup>30</sup> Unless checked, controlled and deconstructed, the future generation will become super competitive with a killer instinct with the touch of the monster Frankenstein.

The neoliberal market forces kill people. So, we need to tame the markets so that they help the society. To do this, one of the ways proposed by Professor Michael Porter is creating a “Shared Value.”<sup>31</sup>

<sup>29</sup>Michael Sandel, *What Money Can't Buy: The Moral Limits of Markets*, New York: Allen Lane, an imprint of Penguin Book, 2013.

<sup>30</sup> Paul Verhaeghe points out the role of competition and markets in defining individuality. He talks about the hyper-intense competition for jobs, among others. See Paul Verhaeghe, *What About Me? The Struggle for Identity in a Market-Based Society*, London: Scribe Publication, 2014, 128.

<sup>31</sup> Michael Porter, “Why business can be good at solving social problems,” Filmed in June 2013, *Ted Video*, 16:28, in [https://www.ted.com/talks/michael\\_porter\\_why\\_business\\_can\\_be\\_good\\_at\\_solving\\_social\\_problems/transcript?language=en#t-829427](https://www.ted.com/talks/michael_porter_why_business_can_be_good_at_solving_social_problems/transcript?language=en#t-829427). Accessed on 18<sup>th</sup> November 2015.

This is addressing a social issue with a successful business model. I am neither a fan nor a champion of capitalism, but if business helps the cause of the poor and makes them come up in life and make them businesspeople themselves, then we can consider the merits and demerits of such a concept. Nonetheless, only further experimentation could validate the veracity of this concept.

The latest reports from the IMF (International Monetary Fund) say that neoliberalism is oversold.<sup>32</sup> Some of the authors opine that instead of delivering growth, some neoliberal policies have increased inequality. The world has to discover a new system that could sustain economic booms and busts. George Monbiot says that with the history of Keynesianism and neoliberalism, it is not enough to oppose a broken system, but rather a coherent alternative has to be proposed.<sup>33</sup> It is the need of the hour.

The problems of inequality abound in the Indian context. It is also clear that it is the poorest of the poor and vulnerable who are punished and get affected by the pro-growth mentality of the government's neoliberal policies. One can get more insights from Amartya Sen.

"Rational Fools" is one of the probing essays of Professor Amartya Sen. He begins critiquing the idea of Edgeworth on self-interest and proceeds to the need for sympathy which ultimately ends in commitment. Sen writes, "These questions are connected, of course, with ethics, since moral reasoning influences one's actions, but in a broader sense these are matters of culture, of which morality is one part."<sup>34</sup> Let the collective conscience of the country wake up to the sobering realities of inequality and make the necessary course corrections.

<sup>32</sup> Jonathan D. Ostry, Prakash Loungani, and Davide Furceri, "IMF Finance and Development," 53, 2 (June 2016).

<sup>33</sup> George Monbiot, "Neoliberalism: The Ideology at the Root of All Our Problems," in *The Guardian*, 15 April 2016.

<sup>34</sup> Amartya K. Sen, "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory," *Philosophy & Public Affairs* 6, 4 (Summer 1977), 317-344.

# **Globalization, Growth and Inequality: India and China**

**K. J. Joseph, Liyan Zhang and Kiran Kumar Kakarlapudi**

This article tends to suggest that the strategy of embracing globalization has been helpful in raising the rate of growth of the economy in India and China. But the observed structural change associated with high growth in India has been instrumental in accentuating inequality in income wealth and across regions. This could be attributed to low growth in employment along with low quality of the employment generated. Foreign Direct Investment (FDI) seems to have worked towards increasing regional inequality. The key issue is why globalization as implemented in India failed to generate employment as has happened in China or in the South East Asian countries.

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## **1. Introduction**

Many of the developing countries, including large economies like China and India, that resorted to globalization during the closing decades of the last century have been able to record a higher rate of growth.<sup>1</sup>

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M. Spence. *The Growth Report: Strategies for Sustained Growth and Inclusive Development. Commission on Growth and Development Final Report*. Washington, DC: World Bank, 2008.

The higher growth has also been associated with increased global integration through trade and investment liberalization and increased participation in global production network established at the instance of Multinational Corporations (MNCs). Thus viewed, the road to high growth is no more an uncharted terrain for many of the developing countries that got political independence after the World War II and considered high growth as the core of their policy agenda. The Commission also identified certain distinctive characteristics of high-growth economies that could be replicated by the laggards for getting into the growth high way. High growth is possible, it has been argued, *inter alia*, because the world economy is now more open and integrated. Thanks to Globalisation, division of labour - the greatest source of improvement in the productive powers of labour identified by Adam Smith, but constrained by the extent of market - is no more constraint at present. While the Commission rightly acknowledges that "no generic formula exists," it indicates that for the developing countries, open world economy facilitates the import of capital, technologies, and know-how such that accumulation along with efficiency/productivity enhancement is made possible.

However, it may appear paradoxical that heightened concern for growing inequality and poor living conditions for a significant part of the world population coexists with episodes of high growth driven by the open trade and investment regimes.<sup>2</sup> The share of the population of living below \$1 a day declined from 42 per cent to 16 per cent between 1981 and 2005. But this was mainly achieved by the substantial reduction of poor in Asia, especially in China. Chen and Ravallian show that when China is excluded, the number of people living on less than US \$ 1 a day is fairly static with no clear trend.<sup>3</sup> However, the total number of people living under US\$2 a day has actually increased by about 56 million during 1981-2005 to reach 2.6 billion in 2005, though their share

<sup>2</sup> K. J. Joseph, "Has Trade been an Engine of Inclusive Growth? India's Experience under Globalization." *Millennial Asia* 4.2 (2013): 135-157.

<sup>3</sup> S. Chen and M. Ravallion. "The Developing World Is Poorer than We Thought, but no less Successful in the Fight against Poverty." *World Bank Policy Research Working Paper Series*, No. 4703, Washington, DC: World Bank, 2008.

in total population declined from 69 per cent in 1981 to 48 per cent in 2005. United Nations estimates indicates that in 2015, at the global level more than 800 million people are still living in extreme poverty; more than 90 million children under age five are still undernourished and underweight and 300 million workers lived below the \$1.25 a day. The key issue at this juncture is to understand emerging trends in inequality and its underlying factors. This article intends to undertake a preliminary inquiry on this issue by taking the case of India and China that accounts for nearly two-fifths of the world population and recorded unprecedented increase in GDP growth since 1980s. The remainder of this article is organized as follows: Section two highlights the trends in inequality in income, wealth and regional inequality. Section 3 presents the underlying factors followed by the last section wherein the concluding observations are presented.

## **2. Inequality in China and India**

The concept of economic inequality has been central to political economy debate since many centuries though the meaning and understanding on the notion of inequality has changed over the years. Many scholars have been engaged in conceptualizing and measuring inequality.<sup>4</sup> Initially, the scholars were concerned with income inequality. However, few other scholars like Amartya Sen highlighted the need to move forward from income inequality and highlighted the need for a broader concept of economic inequality which encompasses various facets of inequality such as education, health, income and wealth.<sup>5</sup> Further, given the interrelated dimensions of these indicators, scholars

<sup>4</sup> A. Sen. *On Economic Inequality*. Oxford, UK, Clarendon Press.(1973); A. B Atkinson. "On the measurement of inequality." *Journal of Economic Theory* 2, 3(1973): 244-263; A. F. Shorrocks. "Income Inequality and Income Mobility." *Journal of Economic Theory* 19.2 (1978): 376-393; "Ranking Income Distributions." *Economica* 50.197 (1983): 3-17; "Inequality Decomposition by Population Subgroups." *Econometrica: Journal of the Econometric Society*, 52. 6 (1984): 1369-1385.

<sup>5</sup> A. Sen."Equality of What," in *The Tanner Lecture on Human Values*, I, 197-220. Cambridge: Cambridge University Press, 1980. Sen, A."From Income Inequality to Economic Inequality,"*Southern Economic Journal*, 64.2 (1997): 384-401.

categorized economic inequality into inequality in outcomes and inequality in opportunities.<sup>6</sup> Similarly, various methods have been proposed to measure the economic inequality.<sup>7</sup> One standard measure of inequality is the Gini coefficient. If income were shared in proportion to the population - the bottom 10 % gets roughly 10 % of the income, the bottom 20 % getting 20 %, and so forth - then the Gini coefficient would be zero. There would be no inequality. On the other hand, if all the income went to the top person, the Gini coefficient would be one, in some sense “perfect” inequality. More-equal societies have Gini coefficients of 0.3 or below. The most unequal societies have Gini coefficients of 0.5 or above. In this article, we limit ourselves to three dimensions of economic inequality: income inequalities, wealth inequalities and regional inequalities.

### **2.1. Income Inequality**

China’s progress in addressing absolute poverty has been unparalleled in history. This is evident from an unprecedented decline in the proportion of households under the official poverty line from 53 % in 1980 to 8 % in 2001.<sup>8</sup> World Bank estimates show that in 2012 only 6.5 % of the population was below the poverty line (equivalent of US\$1.90 per day in 2011 purchasing price parity terms). On account of varying definitions in India there are widely different estimates of poverty. In 2012, the government estimates have indicated that 21.9% of its population is below the official poverty line. According to United Nation’s Millennium Development Goal (MDG) 270 millions or 21.9% people out of 1.2 billion of Indians lived below poverty line of \$1.25 in 2011-2012. The World Bank estimates based on purchasing power parity shows that out of the 872.3 million poor in the world 179.6 million people lived in India. In other words, India, the fastest growing economy

<sup>6</sup> A. B. Atkinson. *Inequality: What Can Be Done*, Cambridge: Harvard University Press, 2015; R. Kanbur, and A Wagstaff. “How Useful Is Inequality of Opportunity as a Policy Construct?” CEPR Discussion Paper No. DP10508, London, 2015.

<sup>7</sup> See Atkinson (1970) for details on the measurement of inequality.

<sup>8</sup> M. Ravallion and S. Chen. “China’s (Uneven) Progress against Poverty.” *Journal of Development Economics* 82.1 (2007): 1-42.

in the world, with 17.5% of total world's population, had 20.6% share of world's poorest in 2011.

Different studies have highlighted the growing income inequality in China. In 1988, the urban Gini (0.24) was very low by international standards, the rural Gini (0.33) reflected regional income disparities, and the national Gini (0.38) was higher than both the urban and the rural Gini coefficients because of the high ratio of urban to rural household income per capita. Increase in household income inequality (Gini coefficient) at the national level from 0.38 in 1988 to 0.49 in 2007 was higher than in many other countries and the highest in Asia.<sup>9</sup> A more recent study by Xie and Zhou showed that the Gini coefficient for family income in China has now reached a level above 0.5, compared with 0.45 in the United States in 2010.<sup>10</sup> This finding is significant because China had a very low level of income inequality as recently as in the late 1980s.

In the absence of systematic data on the distribution of income in India, analysis is often made in terms of the distribution of consumption expenditure.

In general, these studies revealed that consumption inequality in India was on the decline during 1980s both in rural and urban areas while it had gone up between 1993-1994 and 1999-2000. Anhijit Sen and Himanshu argued that between 1993-94 and 1999-00 there was an almost three Gini point increase in consumption inequality. They further showed that the consumption level of the top 20 per cent of the rural population, went up remarkably during 1990s while the bottom 80 per cent of suffered during this period.<sup>11</sup> Deaton and Dreze and Sundaram and Tendulkar also came to similar conclusion.<sup>12</sup>

<sup>9</sup>Asian Development Bank. *Inequality in Asia*. Manila: ADB, 2007.

<sup>10</sup> Y. Xie and X. Zhou. "Income Inequality in Today's China." *Proceedings of the National Academy of Sciences*, 111.19 (2014): 6928-6933.

<sup>11</sup>A. Sen&Himanshu. "Poverty and Inequality in India – II..."; Himanshu& A. Sen. "Poverty and Inequality in India: Getting Close to the Truth." in ed. A. Deaton, and V. Kozel, *Data and Dogma: The Great Indian Poverty Debate*, New Delhi: Macmillan, 2005.

<sup>12</sup>A. Deaton & J. Dreze. "Poverty and Inequality in India: A Re-Examination." *Economic and Political Weekly* 37, 36 (2002), 3729-3748; Sundaram & Tendulkar. "Poverty Has Declined in the 1990s..."

OECD observed that inequality in earnings has doubled in India over the last two decades, making it the worst performer on this count of all emerging economies.<sup>13</sup> The top 10% of wage earners now make 12 times more than the bottom 10%, up from a ratio of six in the 1990s. Wage inequality has indeed contributed to income inequality in the country. In the early 1990s, income inequality in India was close to that of developed countries. However, its performance on inequality has diverged greatly since then, bringing it closer to China on inequality than the developed world.

Using the income tax reports, Banerjee and Piketty also provided empirical evidence to disproportionately large income gains by the upper tail of the population in the 1990s. The real incomes of the top one per cent of income earners in India increased by about 50 per cent.<sup>14</sup> Furthermore, among this top one per cent, the richest one per cent increased their real incomes by more than three times during 1990s. Latest estimates on inequality by Subramanian and Jayaraj showed that in 1993-94 the rural (0.28) and urban (0.34) inequality was lower as compared to what was observed in 2009-10 (0.29 rural and 0.39 urban).<sup>15</sup>

## **2.2. Wealth Inequality**

Research on economic inequality – both within countries and between countries – is usually framed in terms of differences in income or consumption. There has been growing recognition of the importance of other contributions to individual well-being, household wealth.

Subramanian and Jayaraj revealed a considerable concentration of wealth both vertically and horizontally, considerable inter-state

<sup>13</sup> OECD. *Special Focus: Income Inequality in Emerging Economies*. Paris: OECD, (2011).

<sup>14</sup> A. Banerjee & T. Piketty. "Are the Rich Growing Richer: Evidence from Indian Tax Data" in ed. A. Deaton, and V. Kozel, *Data and Dogma: The Great Indian Poverty Debate*, 200: 520-529.

<sup>15</sup> S. Subramanian & D. Jayaraj. "The Distribution of Household Wealth in India." Research Paper No. 2006/116, United Nations University, World Institute for Development Economics Research (UNU-WIDER), Helsinki, Finland, (2006).

differentials, and the continuing centrality of land and real estate in the wealth composition of the country.<sup>16</sup> Analysis of wealth Jayadev et al. found increases in wealth levels in the country across virtually all social and economic groups. Despite the problems of under-reporting and under-sampling at the very top, their analysis showed a clear trend of the wealthiest 20 per cent diverging away from the rest of the population. Similarly, they also found higher incidence of wealth inequalities in fast growing states as compared to their counterparts. These add up to the inference that the first decade of reforms witnessed an impressive increase in wealth as well as a rise in its concentration, especially at the upper end.<sup>17</sup> The latest estimates of wealth inequality by Global Wealth Report 2015<sup>18</sup> reiterate the growing inequality in wealth both in India and China. It shows wealth share of top decile both in India and China has increased substantially during 2000-2014. The higher wealth share of top decile in India as compared to China throughout the period under consideration indicates higher wealth inequality in India than China.

### **2.3. Regional Inequality**

A number of studies have looked at the trends in inequality among the sub-national regions of the Indian economy. Ahluwalia, showed that inequality in real per capita gross state domestic product (GSDP) has tended to rise particularly in 1990s. Unlike previous studies that focussed on only major states, Shetty estimated the regional inequality considering all states and union territories of India and finds that the disparity is much higher compared to that which is based on major states only.<sup>19</sup> The estimated Gini coefficients from both Ahluwalia and

<sup>16</sup>Ibid.

<sup>17</sup>A. Jayadev, S. Motiram & V. Vakulabharanam. "Patterns of Wealth Disparities in India during the Liberalisation Era." *Economic and Political Weekly* 42.38 (2007): 3853-3863.

<sup>18</sup>C. Suisse. Global Wealth Databook 2015. op. cit. downloadable from <https://publications.credit-suisse.com/tasks/render/file/?fileID=F2425415-DCA7-80B8-EAD989AF9341D47E>(2015)

<sup>19</sup>S. L. Shetty. "Growth of SDP and Structural Changes in State Economies: Interstate Comparisons." *Economic and Political Weekly* 38.49 (2003): 5189-5200.

Shetty show that during the 1980s, regional inequality remained stable till about 1986-87, and started increasing slowly thereafter. Nagaraj et al. show that the coefficient of variation of per capita SDP had tended to fall in the 1960s, attributed largely to the impact of green revolution, especially in rural India. However, in the following decades, the regional disparity shot up, more sharply in the 1970s, less markedly during the 1980s and continuing to grow during the first half of the 1990s.<sup>20</sup>

Kar and Saktivel argued the rise in regional inequality during the 1990s is largely due to a sharp rise in inequality in the industrial and services sectors. Contrary to the findings of earlier studies, they argue that the agricultural sector contributed significantly to divergence, for the two decades under study. The authors attribute decreasing regional inequality in 1980s to the state control of public sector which directed resources to backward areas. Further they argue that the increased role of private sector after reforms focused on export oriented production by channeling resources to the areas that were relatively more developed. As a result, investment and economic activity shifted to these areas, strengthening the forces of divergence.<sup>21</sup>

It has generally been argued that along with growing inequality in household income in China, inequality in income across regions, and between rural and urban areas also has been rising.<sup>22</sup> But our estimates of inter-regional inequality in terms of the coefficient of variation in per capita GDP across Chinese provinces, suggest that inter-regional inequality in China remained much higher than that of India until recently. However, since 2004 there has been a declining trend in the inter-regional inequality in contrast to the increasing trend in India and at present the regional inequality in China is lower than that of India.

<sup>20</sup> R. Nagaraj, A. Varoudakis and M. Veganzones. "Long- Run Growth Trends and Convergence Across Indian States," Technical Paper, No 131, OECD Development Centre, Paris, (1998).

<sup>21</sup> S. Kar & S. Sakthivel. "Reforms and Regional Inequality in India." *Economic and Political Weekly* 42. 47 (2007): 69-77

<sup>22</sup> J. Knight. "Inequality in China: An Overview." Policy Research Working Paper No. 6482, Washington, DC: The World Bank, (2013).

On the whole, the available evidence suggests that while China has been successful in addressing absolute poverty and its inter-regional inequality on the decline, inequality in terms of wealth and income are increasing. On the other hand, in case of India along with the existence of absolute poverty, inequality in all its dimensions is showing an upward trend.

### **3. The Underlying Factors**

#### ***3.1. The Analytics***

No wonder, understanding analytics of the relationship between growth, poverty and inequality has been a primary concern of development economists and policy makers. This issue has been one of the most debated with the shifts, reversals, and reaffirmations of views that have characterized the analysis of the interaction between growth, poverty, and inequality.<sup>23</sup> Inequality is now at the forefront of public debate with focus on distribution of wealth, about the 1 per cent and the 99 per cent.<sup>24</sup> Since the observed trend has been taken place in the context of globalization, it is worthwhile to explore the link between globalization, growth and inequality, which is the focus of this note.

Dornbusch succinctly presents the channels through which globalization could bring benefits as follows: improved resource allocation in line with social marginal cost and benefits; access to better technologies, inputs and intermediate goods; an economy better able to take advantage of economies of scale and scope; greater domestic competition; and shake up of industry that may create a Schumpeterian environment especially conducive to growth.<sup>25</sup> Globalization, with greater role for the market forces is expected to bring about resource reallocation according the comparative advantage and will bring about structural changes and growth of the economy.

<sup>23</sup> A. F. Shorrocks & R. van der Hoeven. *Growth, Inequality, and Poverty: Prospects for Pro-Poor Economic Development*. Oxford: Oxford University Press, 2004.

<sup>24</sup> T. Piketty. *Capital in the 21st Century*. Cambridge: Harvard University Press, 2014; A. B. Atkinson. *Inequality: What Can Be Done*.

<sup>25</sup> R. Dornbusch. "The Case for Trade Liberalization in Developing Countries." *The Journal of Economic Perspectives* 6.1 (1992): 69-85.

But, as observed by Stiglitz, “Globalization itself is neither good nor bad. It has the power to do enormous good, and for the countries of East Asia who have embraced globalization *under their own terms, at their own pace*, it has been an enormous benefit... But in much of the world it has not brought comparable benefits. For many it seems closer to an unmitigated disaster.”<sup>26</sup> Thus viewed with the increasing trade and investment liberalization and participation of developing countries in the Global Production Networks (GPNs) established by the Multi-National Corporations (MNCs) with a view to increase their global profitability and international competitiveness need not necessarily result in desired outcomes. In a context wherein low labour cost is taken for granted by the MNCs, the ability of the developing countries to participate profitably in global production network, however, is governed by their ability to provide certain specialized capabilities that the MNCs need in order to complement their own core competence.<sup>27</sup> Countries and sectors/regions within countries that cannot offer such capabilities are often kept out of the circuit of international production network despite their liberal trade and investment regime aggravating their development divide. Even when they participate in GPNs, there are evidence of getting locked up at the low end of the value chain and survive on account of their immisserising competitive strategies involving lower wages as in case of cashew value chain.<sup>28</sup>

For most of humanity, as Amartya Sen observes, the only commodity a person has to sell is his/her labour power so that the person’s entitlements depend crucially on his/her ability to find a job, the wage rate for that job, and the prices of commodities that he/she wishes to buy.<sup>29</sup> As Freeman argued, structural adjustment induced growth has

<sup>26</sup> J. E. Stiglitz. *Globalization and Its Discontents*. New York: Norton, 2002.

<sup>27</sup> D. Ernst and Bengt-Åke Lundvall. “Information Technology in the Learning Economy - Challenges for Developing Countries,” in Erich Reinert (ed.), *Evolutionary Economics and Income Inequality*. London: Edward Elgar Press, 2000.

<sup>28</sup> K. Harilal, N. Kanji, J. Jeyaranjan, M. Eapen & P. Swaminathan. *Power in Global Value Chains: Implications for Employment and Livelihoods in the Cashew Nut industry in India*. International Institute for Environment and Development (IIED), 2006.

<sup>29</sup> A. Sen. “Development: Which Way Now?” *The Economic Journal* 93.372 (1983): 745-762.

also been characterized by 'crises of structural adjustment' as there has also been growing unemployment, a main source of inequality and poverty.<sup>30</sup> Hence, to seek answers to the issue at hand we need to explore the structural change and employment patterns in the economy on the one hand and to examine whether globalization has been undertaken at our own pace and our own terms.

### **3.2. Growth, Structural Change and Employment**

An empirical analysis of the evidence on the bearing of globalization on growth and inequality could begin with the changes in the structure of the economy in terms of GDP and employment. It is evident that with the increased integration with the world market under globalisation there has been a marked improvement in the overall rate of growth in GDP. To illustrate, the estimated rate of growth of GDP increased from 3.99 per cent during the first period (1983-84 to 1987-88) to over 5% in all the subsequent periods with recorded growth being as high as 9.08% during 2005-09. Given that the growth rate since 1993 is found to be higher than the previous decades, wherein the economy has been closed, conclusions in terms of the positive contribution of trade liberalization to output growth has often been made.

Along with acceleration in output growth, there has not been a corresponding acceleration in employment growth. More importantly, during the 2003-2008 that recorded the highest GDP growth coincided with lowest growth in employment. The observed high output growth with low employment growth, needless to say, point towards the fact that India's high growth in itself had the seeds of inequality.

Most important aspect of structural change in India is the marked decline in the share of primary sector (mainly agriculture) and a corresponding increase in the share of services sector. The share of secondary sector, and more importantly that of manufacturing sector in India was about 9% in 1950-51 and that increased to nearly 15% when India embarked on globalization. Concerted efforts under

<sup>30</sup> C. Freeman(2011). "Technology, Inequality and Economic Growth." *Innovation and Development* 1.1 (2011): 11-25.

globalization, notwithstanding there have been hardly any significant increase in the share of manufacturing sector. Here it may be of relevance to note that in case of China, the declining share of agriculture has been accompanied by a significant increase in the share of industrial sector which has always been substantially higher than service sector until very recently.

The observed structural change of the economy has important bearing on inequality through employment and income generation. Though the share of agriculture is only about 15% in India it accounts for over 51 per cent of employment indicating low labour productivity and income – the root cause of inequality. The service sector, while accounting for nearly 60% of GDP accounts for only about 27% of the employment indicating its low employment generation capacity and its potential for creating sharp income divides. The manufacturing sector is characterized by high employment generation capacity along with its potential for working towards equity, as it accounts for 15% of the output and 11.5% of the employment. But its share has been remaining almost constant and the change in the structure of employment within this appears to have been instrumental in working for inequality.

### ***3.3. Structure of Employment in Manufacturing Sector***

Data on share of production workers in total employment and share of contract workers in total production workers shows the share of production workers<sup>31</sup> in total organized manufacturing sector employment declined marginally from 79.09 % to 77.62 % during 1993-94 to 2012-13. More importantly, the share of contract/casual workers (without any social security benefit), in production workers, increased significantly over time from 14.33% in 1993 to 34.26% in 2012. Therefore, it could be inferred that the increase in the share of production workers mainly has been due to increased share of non-permanent (contract) workers, which means that informality has

<sup>31</sup> Annual Survey of Industries defined production workers are the workers who employed directly or through any agency whether for wages and engaged in any manufacturing process or in cleaning any part of the machinery used for manufacturing process, and the labour engaged in the repair and maintenance of fixed assets.

increased through employing contract workers within organised manufacturing sector.<sup>32</sup> Presumably, with a view to survive under the context of heightened international competition under globalization, the firms resorted to cost reducing strategies that involved increased use of contract workers. The impact of such a competitiveness building strategy on inequality is too obvious.<sup>33</sup>

The effect of changes in employment structure in manufacturing sector on inequality could be explored by examining the trend in the share of wages and profit in value added. The observed trend in these two variables lends further empirical evidence to increasing inequalities. The share of wages in NVA has decreased substantially from over 30 % in 1981 to about 12 % in 2012 while that of profits has increased from about 20 % in 1980 to over 50 % in 2012. Thus viewed in tune with global trends as observed by Stiglitz<sup>34</sup> – the dearth of jobs and the asymmetries in globalization have created competition for jobs in which workers have lost and the owners of capital have won – is highly relevant to India as well. The increasing share of profits on the one hand and decreasing share of wages on the other could be seen as instrumental in the observed inequality in India. On the whole, the evidence suggests that much of the decline in wages has been at the expense of blue collar workers, especially those on contract employment. Given that the contract workers are not entitled to additional incentives like bonus, provident fund, pension and others and also need less supervision and managerial staff to monitor them, this

<sup>32</sup> P. Neethi. "Contract Work in the Organised Manufacturing Sector: A Disaggregated Analysis of Trends and their Patterns," *Indian Journal of Labour Economics* 51.4 (2008): 559-573; S. Uma, K. J. Joseph & V. Abraham(2010). "Impact of Trade Liberalization on Employment: The Experience of India's Manufacturing Industries." *Indian Journal of Labour Economics* 51.4 (2008).

<sup>33</sup> Kannan & Ravindran (2009) has certain interesting findings with clear implications on inequality. They have shown that during 1981-82 to 2004-05 while the total output grew by more than 500 per cent, the total emoluments paid to employees grew only by 277 per cent. K. P. Kannan & G. Raveendran. "Growth Sans Employment: A Quarter Century of Jobless Growth in India's Organised Manufacturing." *Economic and Political Weekly* 44.10 (2009): 80-91.

<sup>34</sup> J. Stiglitz. *The Price of Inequality*, New York: W. W. Norton, 2013.

could be considered as a means of cost cutting to enhance international competitiveness which appears to be immiserizing competitiveness leading to increasing inequality.

### ***3.4. Growth of Information Technology (IT) Services Sector***

We have seen that service sector has emerged as the leading sector of the Indian economy. Among the services, achievements of India's ICT sector attracted much world attention. The performance of India's software sector has been unprecedented in India's economic history and attracted sufficient attention of scholars.<sup>35</sup> Moreover, being one of the fastest growing sectors in the Indian economy it has also contributed towards the turnaround in India's GDP growth observed since 1991. Share of software production, which includes software services, software products and Business Process Outsourcing (BPO), in GDP increased from 1.2% in 1998 to 7.5% in 2012. The total value of output of the sector reached US\$147 billion in 2015, of which nearly 70% is exported.

However, the opportunity cost of software exports is shown to be considerable. Given the high salaries and the perks of foreign travel, there is limited movement of personnel from the IT companies to other domestic firms. There is considerable movement of personnel from domestic market-oriented firms to export-oriented software firms or

<sup>35</sup> To list a few: R. Schware. "Software Industry Entry Strategies for Developing Countries: A "Walking on Two Legs" Proposition." *World Development* 20.2 (1992): 143-164; A. Arora, V. S. Arunachalam, J. Asundi & R. Fernandes. "The Indian Software Services Industry." *Research Policy* 30.8 (2001): 1267-1287; K. J. Joseph. "Growth of ICT and ICT for Development: Realities of the Myths of Indian Experience," Discussion Paper No. 2002/78, Helsinki: UNU/ WIDER, (2002); K. J. Joseph. Sectoral Innovation Systems in Developing Countries: The Case of India's ICT in India," in B. A. Lundvall, K. J. Joseph, C. Cristina and Jan Vang (eds.). *Handbook of Innovation Systems and Developing Countries*, Cheltenham: Edward Elgar, 2009; K. J. Joseph & K. N. Harilal. "Structure and Growth of India's IT Exports: Implications of an Export-Oriented Growth Strategy." *Economic and Political Weekly* 36.34 (2001): 3263-3270; N. Kumar & K. J. Joseph. "Export of Software and Business Process Outsourcing from Developing Countries: Lessons from the Indian Experience." *Asia-Pacific Trade and Investment Review* 1.1(2005): 91-110.

foreign subsidiaries.<sup>36</sup> In terms of technological complexity and sophistication, some projects in the domestic market are more advanced and challenging than export projects.<sup>37</sup> Yet another adverse effect refers to the increased competition between software firms and other firms leading to movement of skilled manpower to software industries and sharp rise in salaries working towards inequality. Increase in salaries and resultant increase in cost of production is shown to have adversely affected those industries which compete with software sector for skilled manpower and not having booming world demand.<sup>38</sup> Thus viewed, the observed deceleration in the rate of growth of manufacturing industry since 1991 cannot be delinked to the boom in the export of software industry. Inadequate attention being paid to the domestic market by the industry has stunted the diffusion of IT technology.

Here it is instructive to compare with China. With a total production of \$ 5.0 billion in 1999-00, the size of China's Software industry was comparable to that of India. But unlike India, China's export was only \$254 Million accounting for only five per cent of total production when India exported software worth \$3.9 billion. By 2006 China's production increased to \$64 billion – nearly 13 fold increase – and reached a level much higher than India's production of \$ 43 billion.<sup>39</sup>

While India's software industry has been attracting world attention, China whose software production is reported to be more than twice than that of India has not attracted any world attention. But, the distinguishing characteristic of China's software industry is that it is mostly oriented towards domestic market. Going by the available

<sup>36</sup> N. Kumar. "Indian Software Industry Development: International and National Perspective." *Economic and Political Weekly* 36.45 (2001): 4278-4290; Joseph & Harilal. "Structure and Growth of India's IT Exports..."

<sup>37</sup> Arora et al. "The Indian Software Services Industry"; A. Parthasarathi & K. J. Joseph. "Limits to Innovation with Strong Export Orientation: The Case of India's Information and Communication Technologies Sector." *Science Technology & Society* 7.1 (2002): 13-49.

<sup>38</sup> Joseph & Harilal. "Structure and Growth of India's IT Exports..."

<sup>39</sup> Gregory, N. S. Nollen, S. Tenev. *New Industries from New Places: The Emergence of the Software and Hardware Industries in China and India*. Washington, DC: The World Bank and Stanford University Press, 2009.

evidence while China exports only 20% of its production, it is around 70 per cent in India. This high domestic market orientation has led to IT enabled international competitiveness of other sectors in China leading to significant trade surplus, India with its export orientation enabled other countries to be more competitive!

### ***3.5. Role of FDI***

Before concluding let us take the case of FDI wherein high hopes have been pegged under globalization. As per the data released by the Department of Industrial Policy and Promotion (DPIP), there has been a marked increase in the inflow of FDI into the country after 1991. India's share in global FDI was only 0.1 per cent by 1990 and by 2009, the share increased to a level of 3.1 per cent. Similar trend could be seen in terms of the share of FDI in GDP that remained less than one per cent until 1990 and today it is as high as 3.2 per cent. From the perspective of FDI contribution to filling the saving investment gap, it is evident that its share in gross fixed capital formation increased from a very low level of 0.5 per cent in 1970 to over 9 per cent today. However, as per the DPIP data the patterns of FDI inflow has been inimical to the objective of achieving balanced regional development. Since 1990 top five FDI receiving states accounted for more than 53% of the total FDI inflow into the country and thus contributing towards interregional inequality.

### **4. Concluding Observations**

From the discussion thus far made it appears that the strategy of embracing globalization has been helpful in raising the rate of growth of the economy, but the observed structural change brought about by globalization has also been instrumental in accentuating inequality. The key issue is why globalization as implemented in India failed to generate adequate employment as has happened in China or in the South East Asian countries. Here it may be noted that Arthur Lewis has questioned conventional understanding on the role of trade and investment in promoting growth in his Nobel lecture. To quote, "the engine of growth should be technological change with international trade serving as lubricating oil and not as fuel." He continued: "... those who depend on it as their major hope are doomed to frustration"<sup>40</sup> which is today evident in countries like India.

With the development strategy shifted towards globalization involving globally integrated innovation the focus has been on harnessing all the possible external sources for stimulating domestic capability building process for fostering an internationally competitive economy. The new trajectory involved liberalised access to embodied technology (capital goods) and FDI and disembodied technology, increased incidence of mergers and acquisitions, increasing participation in global innovation networks through R&D in FDI, greater reliance on outward FDI and a new patent policy compliant with the TRIPs regime of WTO. While a few sectors emerged as innovative and competitive and the overall rate of growth of the economy has been impressive, the mainstay of the rural economy - the agricultural sector and the manufacturing sector lagged behind. The lopsided growth, therefore, has resulted in lower growth in employment, growing inequality and discouraging performance in poverty reduction.

Thus under globalisation, as the innovation system was driven by market forces with a view to facilitate "growth for equity," there appears to have been a tendency towards the weakening of institutions working for equity. Hence the remarkable turnaround in output growth has been at the cost of equity. With the greater role for the market and withdrawal of the state under liberalisation, non-delivery of essential services to the weaker sections of society added to the misery and deprivation. The observed outcome, despite the heightened concern for the poor, also needs to be seen in the context multiple spaces of exclusion like active, passive, constitutive and instrumental exclusion that sustained over the years.<sup>40</sup> On the whole, it appears that India's success in globalizing at "our terms and at our own pace," has not been very impressive, whereas China seems to have been able to successfully manage their transition to the global market, which in turn, at least partly, explains the observed differences in the trend in growth and inequality in these two countries.

<sup>40</sup>W. Arthur Lewis. *Growth and Fluctuations, 1870-1913*. London: Allen and Unwin, 1978.

<sup>41</sup>A. Sen, "Social Exclusion: Concept, Application and Scrutiny." Social Development Papers No. 1, Manila: Asian Development Bank, 2000.

# **When Does Economic Inequality Become an Evil and a Sin?**

**Roman Micka**

The Article aims at addressing the question of the nature of economic inequality as an evil and a sin from the perspective of Catholic Social Teaching. It shows that this tradition has always regarded severe social inequality as problematic and that Catholic Social Teaching has continuously put emphasis on the principle of the universal destination of goods and the related human right to decent material security. Following that the paper presents Pope Francis's new incentives highlighting the preferential option for the poor, revision of consumer lifestyle in rich countries and the prospects of change in the dominant economic paradigm. Finally the paper briefly discusses the prospects of India as a promising "country of the future".

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In one of his most radical speeches on the contemporary economic situation – in the "Address of the Holy Father to the Second World Meeting of Popular Movements" in Bolivia – Pope Francis says that the present economic system is not merely an arbitrary and superficial structural deformation, but that this system "runs counter to the plan of Jesus, against the Good News that Jesus brought."<sup>1</sup> He even speaks

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<sup>1</sup>Pope Francis, Address of the Holy Father to the Second World Meeting of Popular Movements, Santa Cruz de la Sierra, Bolivia [July 9 2015], [http://w2.vatican.va/content/francesco/en/speeches/2015/july/documents/papa-francesco\\_20150709\\_bolivia-movimenti-popolari.html](http://w2.vatican.va/content/francesco/en/speeches/2015/july/documents/papa-francesco_20150709_bolivia-movimenti-popolari.html).

of the global system as of a “subtle dictatorship,” which fundamentally deforms interpersonal and international relationships as well as humanity’s relationship to nature. At the same time he calls for optimism and for searching for paths to a structural transformation of the economic conditions in line with service to humanity, global brotherhood and justice, and protection of “Mother Earth.” So Pope Francis to a great extent views the entire global system as “structurally sinful,” insofar as it generates humanly undignified poverty, globalization of inequality and exclusion. Of course, in a broader sense the global economic system generates also numerous positive things – it is a phenomenon in which, in a certain analogy to the parable of God’s Kingdom (Mt 13:24-30), wheat and weeds grow together and it is difficult to separate the two while the process is underway without damaging the crop. The social teaching of the Church does not even reject the key principles lying at the foundation of (global) free market economy – the concept of private property, human creativity, freedom of production, and international trade. It does not reject the positive fruits of these ideals, though with growing intensity opposes their increasingly deformed and reduced form.

### **1. Global Inequality as a Consequence of a “Structurally Perverse” System?**

Since the very beginning the social teaching of the Church has laid emphasis on disproportionate social inequality. Though it acknowledges the logic, natural character and even usefulness of a certain inequality of property among people, the social teaching of the Church underlines the minimal principles of distributive justice and elimination of poverty.<sup>2</sup> Great and disproportionate inequality in the distribution of property is regarded as contradictory to the intentions of the Creator God,<sup>3</sup> the common good and social justice.<sup>4</sup> Unequal distribution of wealth is to be alleviated and all are to have a proportionate share in the overall growth and wealth according to the principle of social justice,<sup>5</sup> whereby in John XXIII this participation is already expressed with the language

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<sup>2</sup> Cf. *Rerum novarum* (1891), 14, 27.

<sup>3</sup> Cf. *Quadragesimo anno* (1931), 5.

<sup>4</sup> Cf. *ibid.*, 58.

<sup>5</sup> Cf. *Mater et magistra* (1961), 73.

of human rights and in the international dimension. Paul VI then further stressed the requirement of eradicating inequality among the nations, criticized the excesses and wastefulness of the rich countries<sup>6</sup> and emphasized the superiority of the global and international dimension of unjust inequality as a primary question.<sup>7</sup> John Paul II already views the social teaching's orientation to the global dimension of economic issues, inequality and justice as a primary starting point<sup>8</sup> and brings a new emphasis on *the principle of the common use of goods* as “*the first principle of the whole ethical and social order.*”<sup>9</sup> Means of vital importance, originally intended for all people, are unequally distributed, differences are growing and the contrast between extreme poverty and ostentatious wealth is becoming alarming.<sup>10</sup>

Besides the emphasis on just global equality the social teaching of the Church has also increasingly drawn attention to issues of sustainable integral development, the ecological dimension of the economy, criticism of excessive consumerism and phenomena of the so-called “culture of death.” These came to be most fundamentally applied and developed at the beginning of the 21<sup>st</sup> century by the last two popes facing the challenges of a truly developed phenomenon of globalization – in the encyclicals *Caritas in veritate* (2009) and *Laudato si* (2015). Of course the last two popes also see the key contrast between the absolute growth of world wealth and the increasing inequalities, but they are also markedly more prophetically critical in evaluating the state and perspectives face to face with developed globalization processes and intensification of certain infelicitous phenomena, especially in that they question the very idea of simple economic growth and make deeper appeals to change the excessively luxurious lifestyle in rich parts of the world from moral and ecological points of view. Let us bring in two examples indicating the real risk of failure of future human development in moral discourse:

“While the poor of the world continue knocking on the doors of the rich, the world of affluence runs the risk of no longer hearing those

<sup>6</sup> Cf. *Populorum progressio* (1967), 8.

<sup>7</sup> Cf. *ibid.*, et *Octogesima adveniens* (1971), 43.

<sup>8</sup> Cf. *Laborem exercens*, 2.

<sup>9</sup> Cf. *ibid.*, 19.

<sup>10</sup> Cf. *Sollicitudo rei socialis* (1987), 9, 14.

knocks, on account of a conscience that can no longer distinguish what is human.”<sup>11</sup>

“We fail to see that some are mired in desperate and degrading poverty, with no way out, while others have not the faintest idea of what to do with their possessions, vainly showing off their supposed superiority and leaving behind them so much waste which, if it were the case everywhere, would destroy the planet.”<sup>12</sup>

Pope Benedict XVI even praises some of the undebatable results global material development have achieved, though at the same time this development is increasingly influenced by “structures of sin”.<sup>13</sup> Generally speaking, for the social teaching of the Church “the explosion of worldwide interdependence, commonly known as globalization”<sup>14</sup> is a prospect and a challenge whose results are uncertain, yet associated with great hope.

Pope Francis underlines the existing deformations even more strongly, he makes the critical discourse against economic trends more elaborate and profound, and links the unsatisfactory state to the governing “technocratic paradigm,” which negatively affects the conception of the human being, prosperity, and the whole nature. The dominant so-called “technocratic paradigm,” which “also tends to dominate economic and political life,”<sup>15</sup> is linked to “a sort of superdevelopment”<sup>16</sup> directed to obsessive and hedonistic consumerism, “culture of discard” and “the dynamic of dominion and the mere accumulation of pleasures,”<sup>17</sup> which are “encouraged by the mechanisms of today’s globalized economy.”<sup>18</sup> He regards the system of commercial relations and ownership as “structurally perverse”<sup>19</sup> and resisting “powerful opposition but also because of a more general lack of interest.”<sup>20</sup> For him the reverse side of this infelicitous development is the phenomenon of extreme and humanly undignified poverty in less developed countries, as well as the phenomenon of poverty and exclusion in developed countries. At the same time he

<sup>11</sup> *Caritas in veritate* (2009), 75.

<sup>12</sup> *Laudato si'* (2015), 90.

<sup>13</sup> *Caritas in veritate*, 21.

<sup>14</sup> Cf. *ibid*, 33.

<sup>15</sup> *Laudato si'*, 108.

<sup>16</sup> Cf. *ibid*, 109.

<sup>17</sup> Cf. *ibid*, 222.

<sup>18</sup> Cf. *ibid*, 144.

<sup>19</sup> Cf. *ibid*, 52.

<sup>20</sup> Cf. *ibid*, 14.

calls for adopting an alternative non-consumer lifestyle, by way of a “bold cultural revolution,”<sup>21</sup> “counterculture” and alternative creativity and lifestyle,<sup>22</sup> revision of values and attitudes, and calls for a “decrease in the pace of production and consumption.”<sup>23</sup> He requests to change the model of global development and for a responsible reflection on the meaning of the economy and its goals,<sup>24</sup> especially with respect to integral development in all its dimensions (environmental, economic and social), and emphasises the superiority of politics over the economy.<sup>25</sup>

So while in the past the social teaching of the Church emphasized the hope of growing prosperity and sufficient material security for all, the present emphasis is on the limits of prosperity as such and on the deformation of development. Rather than calling for hectic growth of wealth and its redistribution the social teaching of the Church now calls for searching – especially on the part of the richer countries – for a proportionate, modest, sustainable lifestyle, “alternative” or even “countercultural” when compared to the contemporary trends.

## **2. Not much is Needed – Lodging, Labour, Food, and Drinking Water**

But unlike some contemporary and debated conceptions of global social justice, which in a certain sense expect the application of the broader social rights and standards developed in prosperous societies, the social teaching of the Church certainly does not call for a consolidation of social rights and redistribution mechanisms in analogy to the developed prosperous societies of the West, which markedly contributed to the development of deformed forms of economy and consumer mentality. The economic goal it apparently views as crucial is precisely attaining the minimal standards to eliminate “absolute” poverty in the sense of minimal material means to secure dignified livelihood. This continual position is linked to the basic ideas of natural law, which constitutes the permanent core of Catholic ethics.

Despite a certain broader reception of the ethos of human rights in the social teaching of the Church, which to a great extent overlaps

<sup>21</sup> Ibid, 114.

<sup>22</sup> Ibid, 108.

<sup>23</sup> Ibid, 191.

<sup>24</sup> Cf. ibid, 194.

<sup>25</sup> Ibid, 189.

especially with the highly appraised *Universal Declaration of Human Rights* of the UN, the popes repeatedly return to a rather more modest expression of basic human rights, basically following this old quaternary of Aquinas (the natural goals of human nature, i.e., human goods / *bona humana* – sustaining own life, sustaining the human species, knowing the truth of God, and life in community).<sup>26</sup> Pius XII already in his *Christmas Message* (1942),<sup>27</sup> John Paul II in the encyclical *Centesimus annus* (1991),<sup>28</sup> and finally Pope Francis in the "Address of the Holy Father to the United Nations" (2015), in fact followed this basic quaternary, which is also expressed in the *Catechism* (1991)<sup>29</sup> when it defines the concept of the common good.

According to these formulations the basic presuppositions of human dignity include not only freedom (right to life, religious freedom, and right to family life), but also the right to basic material security deriving from the concept of the universal destination of created goods, usually formulated especially as "the right to work" and to decent reward, not necessarily as the right to own a certain defined share of property. Even though the expression of these rights can differ in a minor way depending on the historically changeable situations and judgments of practical reason, the requirements of the ius-naturalistic tradition in the Catholic interpretation are fairly modest and their "upper limit" are the requirements of the *Declaration* – which is highly appraised as "a

<sup>26</sup> Cf. Thomas Aquinas, *Summa theologiae*, I-II q. 94 a. 5 arg. 3.

<sup>27</sup> Cf. Pius XII. "Radio message con sempre nuova freschezza for Christmas" [December 24, 1942]: "fundamental personal rights – the right to maintain and develop one's corporal, intellectual and moral life and especially the right to religious formation and education; the right to worship God in private and public and to carry on religious works of charity; the right to marry and to achieve the aim of married life; the right to conjugal and domestic society; the right to work, as the indispensable means towards the maintenance of family life; the right to free choice of state of life, and hence, too, of the priesthood or religious life; the right to the use of material goods; in keeping with his duties and social limitations"; orig.: [https://w2.vatican.va/content/pius-xii/it/speeches/1942/documents/hf\\_p-xii\\_spe\\_19421224\\_radiomessage-christmas.html](https://w2.vatican.va/content/pius-xii/it/speeches/1942/documents/hf_p-xii_spe_19421224_radiomessage-christmas.html); English translation: <http://www.ewtn.com/library/PAPALDOC/P12CH42.HTM>.

<sup>28</sup> *Centesimus annus* (1991), 47.

<sup>29</sup> *Catechism of the Catholic Church* (1991), §§ 1907–9.

real milestone on the path of the moral progress of humanity.”<sup>30</sup> But according to numerous formulations the Catholic position is content with even a more modest, “less Western” and “more concise” formulation of human rights, as indicated by the document of the ITC *In Search of a Universal Ethic: A New Look at the Natural Law* (2009). It understands natural law as a starting point for constructing a global moral order, but at the same time perceives some requirements of the *Declaration* as too “Western” and calls for a “more concise” reformulation.<sup>31</sup> The *Declaration* contains elements that transcend the minimalist elements of traditionally conceived natural law – “the right to democracy”, certain stronger “social rights,” and others. So from this point of view the effort to set through a broader concept of human rights at the global level over and above the *Declaration* is an expression of a certain limited Western or Eurocentric perspective.<sup>32</sup>

The present Pope Francis also confirms this ius-naturalist core of the conception of human rights when in his *Address to the United Nations* (2015) he again focuses on a modest enumeration of human rights, converging with the basic requirements of the natural law, which he apparently regards as entirely pan-human and universal:

government leaders must do everything possible to ensure that all can have the minimum spiritual and material means needed to live in dignity and to create and support a family, which is the primary cell of any social development. In practical terms, this absolute minimum has three names: lodging, labour, and land; and one spiritual name: spiritual freedom, which includes religious freedom, the right to education and all other civil rights.

<sup>30</sup> Cf. John Paul II. Address of the His Holiness John Paul II to the 34<sup>th</sup> General Assembly of the United Nations [2 October 1979], art. 7, [https://w2.vatican.va/content/john-paul-ii/en/speeches/1979/october/documents/hf\\_jp-ii\\_spe\\_19791002\\_general-assembly-onu.html](https://w2.vatican.va/content/john-paul-ii/en/speeches/1979/october/documents/hf_jp-ii_spe_19791002_general-assembly-onu.html).

<sup>31</sup> International Theological Commission. *In Search of a Universal Ethic: A New Look at the Natural Law* (2009), art. 5; [http://www.vatican.va/roman\\_curia/congregations/cfaith/cti\\_documents/rc\\_con\\_cfaith\\_doc\\_20090520\\_legge-naturale\\_en.html](http://www.vatican.va/roman_curia/congregations/cfaith/cti_documents/rc_con_cfaith_doc_20090520_legge-naturale_en.html).

<sup>32</sup> As is the case to a great extent e.g. with *A report to the Bishops of COMECE entitled Global Governance. Our responsibility to make globalisation an opportunity for all* (2001), when it requests that the *Charter of Fundamental Rights of the European Union* become the starting point for a global basis of human rights.

... effective, practical and immediate access, on the part of all, to essential material and spiritual goods: housing, dignified and properly remunerated employment, adequate food and drinking water; religious freedom and, more generally, spiritual freedom and education. These pillars of integral human development have a common foundation, which is the right to life and, more generally, what we could call the right to existence of human nature itself.<sup>33</sup>

This list is similar to the four essential and elementary rights in John Paul II and to the enumeration of rights in Pius XII. Although the popes do not oppose further possible progress in the development of human rights, as we have seen, they repeatedly return to reformulations of their modest ius-naturalist basis.

The right to work and the associated right to sufficient and decent reward is therefore a certain core and expression of the concept of the universal destination of goods, as evident from the formulations of Pius XII, John Paul II ("the right to share in the work which makes wise use of the earth's material resources, and to derive from that work the means to support oneself and one's dependents"), or Francis. The social teaching of the Church principally does not request anything like the often debated fundamental global redistribution transfers, global social state, or universal basic income. The goals of decently securing human needs and dignified economic conditions apparently should not be attained primarily by way of direct redistribution of money, with the exception of pressing humanitarian and developmental aid, but especially by creating institutional conditions for the possibility of obtaining means of livelihood by work. Similarly Pope Francis understands the right to shared "earthly goods" primarily as the "right to work," in fact the encyclical *Laudato si* understands social policy in the form of monetary aid as a certain provisional arrangement, not as a systemic solution of poverty – "Helping the poor financially must always be a provisional solution in the face of pressing needs. The

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<sup>33</sup> Pope Francis, Address of the Holy Father, United Nations Headquarters, New York [25 September 2015], [http://w2.vatican.va/content/francesco/en/speeches/2015/september/documents/papa-francesco\\_20150925\\_onu-visita.html](http://w2.vatican.va/content/francesco/en/speeches/2015/september/documents/papa-francesco_20150925_onu-visita.html).

broader objective should always be to allow them a dignified life through work.”<sup>34</sup>

Economic inequality becomes an evil and a sin especially when some people are suffering and dying of hunger, although they participate in the shared “ownership of the Earth” (*communis omnium possessio*), while others do not use their shared freedom (*una libertas*) to employ it responsibly for the common good of the whole of humanity.

### 3. Indications of Solutions and Orientations in Pope Francis

What has been said so far needs to be supplemented: the particular forms of applying the principles of the universal destination of goods are strictly bound to the principles of subsidiarity<sup>35</sup> and solidarity.<sup>36</sup> Poor countries are expected to actively participate in constructing institutions able to eliminate undignified human poverty, because “the causes of underdevelopment are not primarily of the material order.”<sup>37</sup> The rich countries are expected, rather than to give crumbs falling off their luxurious table in the form of international aid, which “has often been diverted from its proper ends, through irresponsible actions both within the chain of donors and within that of the beneficiaries,”<sup>38</sup> to offer solidarity in the form of rectification of injustices and asymmetries in the international field in access to resources and to just trade, and especially in revision of cultural forms of disproportionately opulent lifestyle, which cannot be applied as an exemplar on a global scale, with respect to moral and ecological limits. The strong “anti-consumerist” dimension of the encyclical *Laudato si* should not be overlooked and overshadowed by other, especially media interpretations, limited perhaps to the issue of global warming. The Pope is first of all critical of consumerist lifestyle, whereby ecological, social and other impacts are merely consequences of this key deformation. Judging from the frequency and nature of his statements, Francis also in a certain way withdraws from emphasizing the structures of a “culture of death” in the sphere of abortions and other “sexual” issues. But at the same time he intensifies discourse against the “umbrella concept”

<sup>34</sup> *Laudato si*, 128.

<sup>36</sup> *Laudato si*, 158.

<sup>38</sup> *Ibid.*

<sup>35</sup> Cf. *Caritas in veritate* (2009), 57.

<sup>37</sup> *Caritas in veritate*, 19.

of these issues, which are backed by an overall transformation of moral consciousness and prevalence of “technocratic paradigm” in politics and the economy. In a sense Pope Francis regards the whole deformed system of economic institutions and lifestyle as “culture of death,” of which the bioethical and sexual issues, the issue of euthanasia or disposing with unborn life are consequences.

However, what these calls on the part of the social teaching of the Church mean in particular and how they are to be embodied in activities and institutions is a difficult question, which the social teaching of the Church as such does not answer fully.<sup>39</sup> Of course, certain criteria and indications are to be found in the documents. For example, Pope Francis calls not only for a revision of lifestyle but also for reinforcing political dominance over the global dimension of the economy, for changing the model of global development and for responsible deliberation on the meaning of the economy and its goals. On his view the path to overcome the unhappy trends includes emphasis on economic “bottom-up activity” – by individuals, communities, individual countries and states, not primarily on the realization of changes from above by political elites or transnational subjects. He speaks of supporting small-scale food production systems, diversification and localization of production, especially in agriculture.<sup>40</sup> He lays emphasis on “social responsibility on the part of consumers,” which together with a change in lifestyle “could bring healthy pressure to bear on those who wield political, economic and social power.”<sup>41</sup> Economic conditions cannot be changed from above by global regulation and limiting free market exchange (incidentally, the Pope makes only temperate use of the concept of regulation – principally only in the sphere of risks of damaging the environment<sup>42</sup> and the need to regulate “speculative financial practices and virtual wealth”).<sup>43</sup>

The Adress in Bolivia (2015) mentioned above even explicitly says that neither he nor the Church as such has a particular program or a technical solution to the defined problems:

<sup>39</sup> Cf. *Centesimus annus*, 43.

<sup>40</sup> Cf. *Laudato si*, 129, 180.

<sup>42</sup> Cf. *ibid*, 29, 174, 177.

<sup>41</sup> Cf. *ibid*, 206.

<sup>43</sup> Cf. *ibid*, 189.

We desire change enriched by the collaboration of governments, popular movements and other social forces. This too we know. But it is not so easy to define the content of change – in other words, a social program which can embody this project of fraternity and justice which we are seeking. It is not easy to define it. So don't expect a recipe from this Pope. Neither the Pope nor the Church have a monopoly on the interpretation of social reality or the proposal of solutions to contemporary issues. I dare say that no recipe exists. History is made by each generation as it follows in the footsteps of those preceding it, as it seeks its own path and respects the values which God has placed in the human heart.<sup>44</sup>

But at the same time he sees hope precisely in the activity of popular movements, the “*alternative sector*”, “*a truly communitarian economy*”, “*coordination and expansion of these forms of popular economy and communitarian production*” and “*a full and participatory democracy*.<sup>45</sup>” In this context he proposes three great tasks – to put the economy in the service of peoples (assuming that the available resources in our world, the fruit of the intergenerational labours of peoples and the gifts of creation, more than suffice for the integral development of “each man and the whole man”); to unite our peoples on the path of peace and justice (laying emphasis on the autonomy of nations as “*artisans of their own destiny*” and in a sense of respect to “*their culture, their language, their social processes and their religious traditions*”); and the most important task to defend *Mother Earth* (“*I ask you, in the name of God, to defend Mother Earth*”). Finally he again calls for the necessity and crucial character of bottom-up activity, the identity and emancipation of nations:

“The future of humanity does not lie solely in the hands of great leaders, the great powers and the elites. It is fundamentally in the hands of peoples and in their ability to organize. It is in their hands, which can guide with humility and conviction this process of change.”

Economic inequality – so we can finally say – becomes a sin especially in two respects – when for a part of human communities

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<sup>44</sup> Pope Francis, “Address of The Holy Father to the Second World Meeting of Popular Movements,” [2015].

and a part of humanity it means lack of the basic items humans need for dignified life – and when improperly used enormous wealth leads to perverted lifestyle, devastation of social capital and nature as our common home.

#### **4. Postscript – India as a “Land of the Future”?**

The present Pope Francis in a new and more pronounced way emphasizes the “option for the poor” and critical discourse against contemporary economic trends, as his numerous addresses as well as the key encyclical *Laudato si* (2015) show. In this context it is rather surprising, that although India is a country with the highest concentration of the poor in the world and the home of a fairly strong Catholic Church, the Pope does not mention the potential contribution of Indian bishops (Catholic Bishops’ Conference of India, CBCI) to the prophetic-critical discourse of the whole of social teaching of the Church (concerning poverty, criticism of economic globalization, reflection of ecological issues) in his encyclical, although *Laudato si* very often appeals to the experience and reflection of local bishops’ conferences, their documents and statements. The preferences show that his South American experience is especially close to him.<sup>45</sup> Without undertaking a serious economic comparison it is clear that the majority of extremely poor inhabitants of the world are concentrated in Sub-Saharan Africa, Southern and Southeastern Asia (including India, the country with the greatest concentration of poor people in the world). According to the fairly complex *Human Development Index*<sup>46</sup> the Pope’s home country of Argentina (at the end of the 19<sup>th</sup> century incidentally one of the economically wealthiest countries of the world) occupies 40<sup>th</sup> place (cf. 36<sup>th</sup> Poland, 37<sup>th</sup> Malta, or 43<sup>rd</sup> Portugal, 44<sup>th</sup> Hungary, 46<sup>th</sup> Latvia, 47<sup>th</sup> Croatia, EU members!), while India takes 130<sup>th</sup> place among the monitored countries of the world.

But the reality of the Indian experience, the experience and its reflection on the part of Indian Christianity, is extraordinarily inspiring and noteworthy as a whole (not only the experience of poverty, but also of dialogue with other world religions and of persecution). In India Christianity is not a dominant power, but a “creative minority” that can actively contribute to defending human dignity, human equality and conditions for a dignified life. The Asian grounding of the Indian church

is one of the bridges to the West's dialogue with the world of so-called "Asian values," which are normally emphasized in "inter-civilizational dialogue" as hardly compatible. This is a factor which does not hold so much for South America, there the culturally-civilizational mainstream has historically been formed primarily by "Iberian" Catholicism.

The world of India, this great social "laboratory", in which 17.5% of all people are living today, which will most probably become the most populous country in the world by 2030 and has the ambition to become the largest world economy in the coming decades, is worth observing. Only the future will show how this "world's biggest democracy" will succeed in eliminating the political, economic, social and ecological ailments accompanying it. India is usually regarded with hopes for a prospective future, its success would markedly reinforce the legitimacy of democracy in the Asian context and be a fundamental geopolitical factor. The Indo-American Fareed Zakaria views his native country with great optimism. In his book *The Post-American World* (2008)<sup>47</sup> he perceives India as a country with great prospects due to its populational, political, educational and economic profile. Even though there are still many poor people in India, he claims that their proportion is dynamically decreasing. According to Zakaria Indian economy is marked by gradual "*bottom-up development*" (so much emphasized by Pope Francis), it is a "*noisy, open society with a chaotic democratic system*," it is a "*messy, chaotic, and largely unplanned*" country, but principally pluralist and free, as compared to the (*prima facie*)

<sup>45</sup> Cf. *Laudato si'*, explicit references to documents and declarations of bishops of South Africa (art. 14), bishops of Latin America (art. 38 and 54), the Philippines (art. 41), Bolivia (art. 48 and 170), Germany (art. 48 and 69), USA (art. 52), Canada (art. 85) and Japan (art. 85), Brasil (art. 88), the Dominican Republic (art. 92), Paraguay (art. 94), New Zealand (art. 95), Portugal (art. 159), Mexico (art. 189), Australia (art. 218); the only two references to the "Asian experience" are in art. 116 (reference to the declaration *Love for Creation. An Asian Response to the Ecological Crisis* (1993) published by the *Federation of Asian Bishops' Conferences*) and in art. 41 (reference to the pastoral letter of bishops of the Phillipines *What is Happening to our Beautiful Land?* (1988)), both texts primarily focused on ecology, not on issues of poverty or economic development.

<sup>46</sup> Cf. *United Nations Development Programme. Human Development Report 2015*; [http://hdr.undp.org/sites/default/files/2015\\_human\\_development\\_report.pdf](http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf).

<sup>47</sup> Fareed Zakaria, *The Post-American World*, New York, 2008, 112–141.

economically more successful and dynamic China. Although Zakaria's evaluation is rather optimistic – and we can raise numerous justified objections especially concerning the real impacts of some aspects of globalization on India and the mere statistical data on poverty<sup>48</sup> – it is certainly a hopeful expression of the prospects. If together with Pope Francis we hope for a future "dominance of politics over economy," then from the political point of view India has better prospects for the future. For example, considering 2015 data, despite the higher Chinese *Human Development Index* (90<sup>th</sup>) as compared to India (130<sup>th</sup>), from the point of view of the *Democracy Index*<sup>49</sup> India is a politically much more developed country. While China as an "authoritarian regime" takes 136<sup>th</sup> place among African countries, the Indian *Democracy Index* is as a "flawed democracy" at 35<sup>th</sup> (between 34<sup>th</sup> Israel and 36<sup>th</sup> Slovenia), in the language of numbers and from a certain limited perspective its political situation is surprisingly better than the one of many newer (cf. Poland 48<sup>th</sup>), or even one of the oldest EU countries (cf. Greece 40<sup>th</sup>).

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<sup>48</sup> Cf. for example Shaji G. Kochuthara, *Gaudium et spes, Globalization and the Developing World, Caritas et veritas* 1/2016, *Caritas e Veritas* 1/2016, <http://caritasetveritas.cz/index-en.php?p=aktual&pkey=196>, 95–107.

<sup>49</sup> Cf. *Democracy Index 2015. A report by The Economist Intelligence Unit*, <http://www.yabiladi.com/img/content/EIU-Democracy-Index-2015.pdf>.

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